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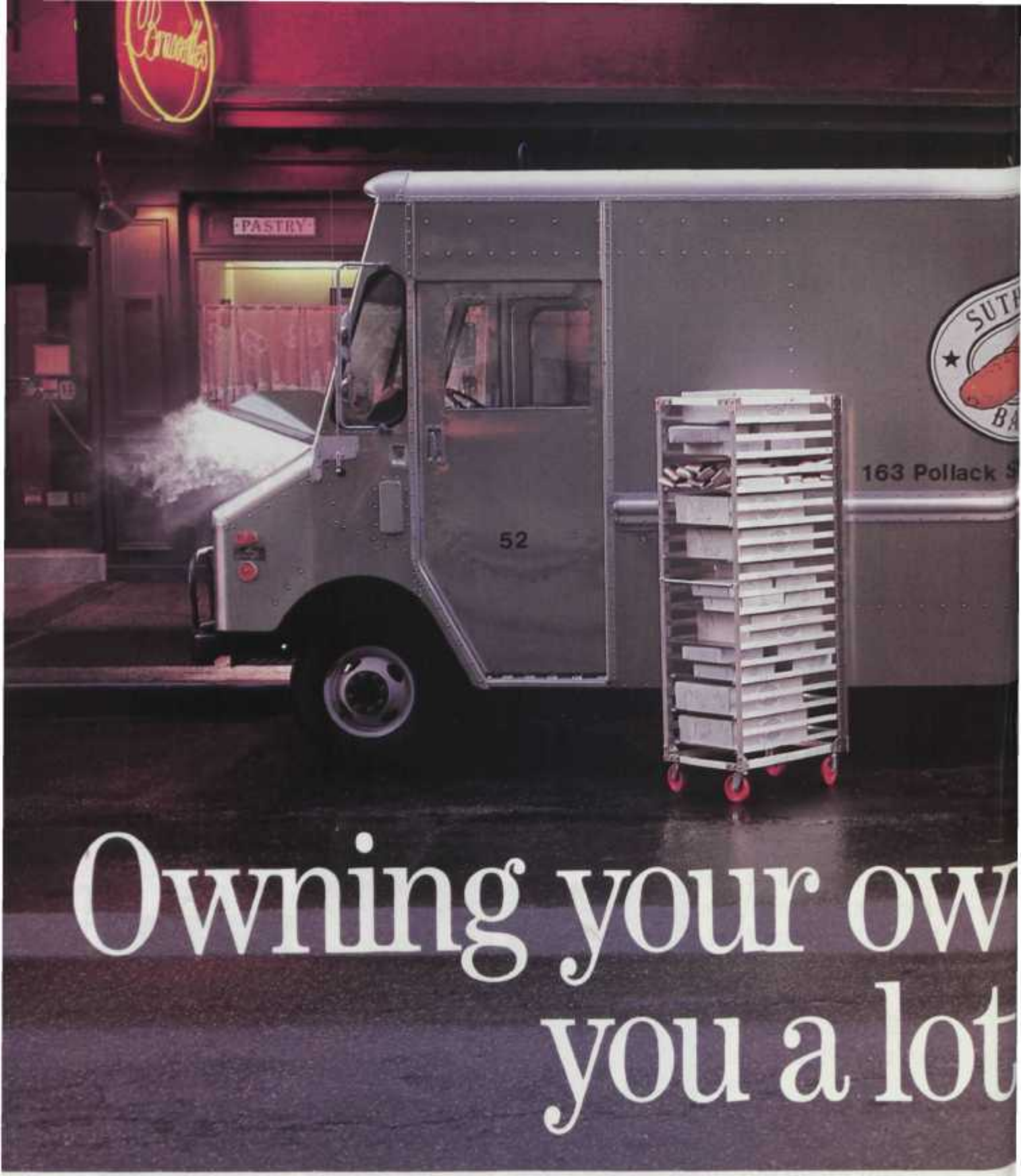






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PHOTO: BRIAN MASCK

Morning exercises *foster a health consciousness that complements the accident-prevention efforts at Trendway Corp., one of the many companies that have found ways to control workers' compensation costs. Cover Story, Page 18.*



PHOTO: BARRY STAVER

Slower growth *may be the price of tax hikes for residential developers Caroline and Tom Hoyt. Taxation, Page 24.*

COVER STORY

18 Taking Charge Of Workers' Comp

Aggressive accident prevention and quality management have far more impact than new laws when it comes to breaking the spiral of workers' comp costs.

21—A Management Checklist
22—Oregon Sets An Example For Successful Reform

TAXATION

24 The New Tax Law's Business Impact

These examples of how specific provisions could affect your firm will help you with tax planning.

30 Too Few Good Enterprise Zones

President Clinton's economic package sets up nine big ones and 95 smaller ones, but not enough, critics say, to have much impact.

SPECIAL REPORT

32 The '94 Trucks

This year's crop reflects a growing demand for comfort and style. Manufacturers are addressing safety concerns as well, making anti-lock brakes and air bags standard on many models.

INSURANCE

40 Big Price Tags For Little Lies

When some cheat on claims, all pay—in higher premiums; a new industry group is targeting such fraud.

SMALL-BUSINESS COMPUTING

44 Subnotebooks, CD Books, And Doing The Books

Elegant portables for those on the go; the new world of words; accounting by Windows.

LEGISLATION

50 Congress Eyes A Piece Of The Rock

Companies that mine on federal land favor mining-law changes—but not ones that would add more regulations and steep royalties.

FAMILY BUSINESS

52 Alternatives To Stock Ownership

Alternatives to offering stock to employees; gems from a reporter's notebook; a playboy son's worrisome ways.

FRANCHISING: A SPECIAL GUIDE

57 You Can Overcome Financing Hurdles

A creative approach can make the difference for a would-be franchisee.

60—Visiting A Loan Officer? Be Prepared

MANAGING

66 Bureaucracy, Heal Thyself

The Clinton administration says it will go beyond basic TQM techniques and actually "reinvent" federal government.

LITIGATION

70 Service Without A Smile

You and your employees should know how to respond if you're notified of a lawsuit.

POLL RESULTS

81 Readers' Views On The Minimum Wage

Most respondents to our Where I Stand poll oppose increasing the minimum wage directly or through an indexing plan.

WHERE I STAND

80 On Business Ethics

Results of this poll will be used by business leaders in developing policies on this topic.

VOL. 81, NO. 10



PHOTO: ©BRUCE BUCHANAN

Easy rider: *The Peruvian Paso's gentle gait is a boon for horse broker Karen Johnson. Making It, Page 13.*

DEPARTMENTS

4 Letters
6 Entrepreneur's Notebook
8 Dateline: Washington
10 Managing Your Small Business
13 Making It
71 Direct Line
73 To Your Health
74 It's Your Money
76 For Your Tax File
78 Classified Ads
82 Congressional Alert
83 Editorial
84 Free-Spirited Enterprise

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Editor's Note

A Plan For Do-It-Yourself Reform



Demands for reforms in the workers' compensation system have increased in direct proportion to the employer-paid cost of that program: $62 billion last year, twice the level just seven years ago. Some states have responded but not all to the degree that business would like to see. But waiting for government to do something that it does seldom and usually not very well—find a workable solution for a problem—is not necessarily the only course.

That's the theme of this month's cover story, "Taking Charge Of Workers' Comp," on Page 18. It describes how employers can act on their own, particularly through safety programs and other management strategies, to head off the accidents and resulting costs that drive up insurance premiums for workers' comp coverage.

The article was written by Assistant Managing Editor Roger Thompson, who has done extensive reporting on this subject. His earlier cover stories have helped readers gain new insights into how workers' comp costs have turned into a critical problem for small businesses and what the options are for relief. You'll find that this report contains equally valuable information on this subject.



Another major feature in this issue deals with a topic that is also at the top of small-business concerns these days: taxes. Specifically, it describes how the increases and other aspects of the budget law recently passed by Congress will affect small businesses. This report, on Page 24, was written by Senior Editor Joan C. Szabo, our specialist in business finance. It should be a big help to you in assessing your tax situation for 1993 and in tax planning for future years.

Robert T. Gray
Editor

Nation's Business

Letters

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Imprecise Tax Laws Put Employers At Risk

Re your August cover story, "Contract Workers: A Risky Business":

The real problem is the law's lack of clarity, which invites costly litigation, creates unnecessary risk and frustration for taxpayers, and increases operating costs of the Internal Revenue Service and the state and federal court systems.

All that Congress had to do was specifically define what is and what is not an employee. There would then be no issue, no debate, no special IRS task force sent out to attack businesses, no appeals officers, no courtroom battles. And, of course, taxpayers and their advisers would not have to interpret a subjective, 20-point, common-law test established by the IRS, which had no responsibility or involvement in writing or passing the law.



When tax laws are passed, the lawmakers need to focus on how those laws will be interpreted by the taxpayers and the IRS and the impact they will have on government costs of monitoring them.

Simplicity is the key, and that requires specificity.

Lawrence G. Kline
Certified Public Accountant
Encino, Calif.

Fed Up With IRS "Blackmail"

As a co-owner of a small business, I have suffered from the IRS tactics described in your article. Although I was certain that its demand for us to classify a few casual independent contractors as employees was wrong, it made good business sense to accept the deal they offered rather than fight the government in court.

The IRS approach that we must accept its terms or it will take us to court is a clear form of blackmail that should not be allowed. But I had to consider our 20 or so employees who might have had to pay for the legal costs by forfeiting their jobs.

Geoffrey Boothroyd
Boothroyd Dewhurst, Inc.
Wakefield, R.I.

Business Vs. Big Brother

Once again our benevolent government is making it impossible for small business to survive and prosper. Your article says that improper classification of workers invites big trouble from the IRS, but it also describes how two small businesses that met all the necessary IRS income-reporting requirements were still assaulted by Big Brother's thugs.

Robert Gentile
Operations Manager
Texas Overnight Services
Austin, Texas

The Impact On Workers' Comp

A side issue to independent contracting is becoming more and more troublesome for small business. Workers' compensation carriers in Arizona and Illinois (the only states with which we have experience) are taking a position that any vendor that we use is an employee if that vendor does not carry compensation insurance. These carriers are increasing our wage base for premiums and increasing our cost of doing business by some 10 percent.

Gabriel Gary Kotin
President
Kay-Kay Realty Corp.
Scottsdale, Ariz.

A Popular Tax Dodge

The inequities of having to compete against companies that do not treat people as employees are great and result in an immediate 15 percent competitive disadvantage.

Independent-contractor employment has gained great popularity as a tax dodge. This would be a moot point if the various governments were collecting taxes from the independent contractors, but compliance in this area is very poor.

Brett A. Sorye
President
Health Force
Atlanta

Tax Rise Inhibits S Corporations' Growth

I own three Subchapter S corporations, and my accountant tells me that President Clinton's tax bill will add at least $20,000 to my tax payments. Those funds would normally be left in the business to finance growth.

We employ about 60 people in our used-auto-parts companies and are growing. But, to increase efficiency, we are

currently operating with 20 percent fewer employees than we did last year.

Had I been given tax incentives, I would most certainly be considering taking on new debt to increase inventories, expand, and hire several more workers. Instead, I will have to find ways to trim expenses to pay the higher taxes. I probably will have to delay purchasing a new wrecker, and I may have to lay off a worker.

Clinton has put me and most other small-business people in a defensive mode relative to future business plans.

Ron Sturgeon
Fort Worth, Texas

Contingent Fees Can Speed Justice

"Civil Courts On Trial" [August] identified very clearly some of the problems that businesses, particularly small businesses, face when they are confronted with litigation.

One solution is to hire a lawyer willing to handle a case on a contingent-fee basis. There is no incentive for a lawyer who works this way to spend time on meritless cases, discovery, or paper pushing that does not advance the case.

This results in not only lower costs for the clients but also fewer delays and less expense for the courts and taxpayers.

Albert P. Zabin
Schneider, Reilly, Zabin & Costello, P.C.
Attorneys At Law
Boston

There Are Other Providers Of Home Warranties

An item on home warranties in It's Your Money [August] notes that many builders offer the National Association of Home Builders' Home Owner Warranty (HOW) coverage.

While many builders do offer HOW coverage, a larger number offer the Residential Warranty Corp.'s plan or that of a competitor of both HOW and RWC.

The item says that in addition to HOW, "other building companies may have their own insured warranties." This implies that home buyers have a choice of HOW or a builder's own warranty.

Thanks to the free-enterprise system, however, consumers have a variety of options.

Tom Bothell
Vice President, Marketing
Residential Warranty Corp.
Harrisburg, Pa.

[Editor's Note: Peter Weaver's column missed mentioning the two other major providers of home warranties: Home Buyers Warranty and the Residential Warranty Corp.]

Where Are The Spending Cuts?

Dateline: Washington [August] quotes a Coopers & Lybrand official predicting that state and local taxes will increase as the "federal government trims down."

There is ample evidence already that state and local taxes are going up, but I take strong issue with the contention that the federal government is trimming down. As long as the federal government engages in base-line budgeting, we will not see any meaningful trimming. The claim that a reduction in an increase is a cut must be contested.

The Congressional Budget Office predicts that the federal debt will increase more than $1 trillion in five years.

Paul Green
Henderson, N.C.

[Editor's Note: This month's editorial, on Page 83, deals with the base-line approach to budgeting.]



ILLUSTRATION: BILL COULTER

Institute Provides List Of Certified Consultants

"How To Choose A Consultant" [July] identified a number of guidelines for selecting a family-business consultant. An important resource is the Institute of Management Consultants, New York, which has a listing of certified management consultants who specialize in working with family businesses.

Laddie F. Hutar
Board Member, Chicago Chapter
Institute Of Management Consultants
Glenview, Ill.

Send letters to Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C., 20062-2000, and include your phone number. You may fax your letter to (202) 887-3437. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.*

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Entrepreneur's Notebook

By Joe A. Alvarez Jr.

When Status Quo Just Won't Do

There is nothing funnier than hearing people describe how they have done business the last 30 years and how they plan to make money the same way the next 30 years. Provided they don't work for me. I have found that going forward without change is impossible. Call it a built-in dissatisfaction with the status quo.

At DCC Constructors Inc., we constantly review what we do and how we do it with an eye toward capitalizing on the next opportunity. Making change something of a constant has enabled our company to cope with the troubles many construction firms have experienced during the recession.

Charging a business with constantly moving into new areas requires an entrepreneur to learn as much as possible about new segments of the market, whether the business is building apartments or selling doughnuts. Most entrepreneurs shy away from lines of business they don't understand, labeling them as too risky. Instead, we learn about a new line of business, decide how well we understand the risks, and, if possible, proceed.

We started as a commercial builder, constructing office buildings, shopping plazas, parking garages, and churches, but in the mid-'80s, we predicted a tremendous demand for rental apartments in central Florida. Most commercial builders, who were used to working with steel and concrete, were reluctant to master stick-frame construction of apartments. Sensing opportunity, however, we talked our way into a few multifamily projects.



PHOTO: BRUCE BORCH

Diversifying *has helped win business for Joe Alvarez's construction company.*

We thought we were ready, and so did our client, the developer. It turned out that we didn't have the proper supervisory personnel. Our first apartment projects were difficult to administer and complete, but the money we lost was the price we paid to learn how to do the job right. We eventually went out of state and hired people who were experienced in supervising construction of apartments, and in one year we went from losing money to making a profit.

Since then, DCC has built more than 17,000 apartment and condominium units. Multifamily residential construction now provides about 40 percent of our revenue.

This year, the company will have more than $60 million in revenue, compared with $15 million in 1982.

DCC has expanded beyond commercial construction in other ways as well. We have hired people from a variety of fields to bring a broader outlook to our company. A former Big Six accountant, for example, enables us to provide services in business development and real estate planning. Among other things, he helps developers draw up formal business plans for submission to banks.

Diversifying has helped us thrive. Typically, when a general contractor calls a potential client, he or she is likely to hear, "I'm not ready to talk to a contractor yet; I'll call you back six months from now." The phone call ends there.

Our broadened outlook helps us hold on to a prospect. A customer who is months away from hiring a contractor probably needs someone who can help get financing. Our work in real estate planning, in turn, often leads to future contracting work, which we can perform.

In providing the level of service that we strive for and differentiating ourselves from the competition, we are not necessarily the lowest-priced company in the market. We find, however, that a lot of customers are willing to pay for someone who is more sophisticated and aware.

Being successful doesn't require beating all of the competition, just 80 percent of it. My guess is that about 20 percent of our competitors are like us, trying to predict what will happen next and to determine which opportunities best suit them. If an entrepreneur can be in that group of forward thinkers, he or she should be able to outperform the remaining 80 percent.

That approach will ensure that the company will still be doing business the next 30 years. NB

Joe A. Alvarez Jr. is president and managing owner of DCC Constructors Inc., a construction management firm in Longwood, Fla. He prepared this account with Nation's Business *Contributing Editor Charles A. Jaffe.*

Readers with special insights on meeting the challenges of starting and running a business are invited to contribute to Entrepreneur's Notebook. Write to: Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062-2000.*

What I Learned

Most entrepreneurs tend to shy away from lines of business they don't understand, labeling them as too risky. Instead, our company tries to learn about different segments of the market, decide how well we understand the risks, and, if possible, proceed.

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Dateline: Washington

Business news in brief from the nation's capital.

By Albert G. Holzinger

INTERNATIONAL TRADE

NAFTA Backers Cite Rise Of U.S. Exports To Mexico

U.S. merchandise exports to Mexico increased by nearly $26 billion, or 178.4 percent, to almost $41 billion from 1987 to 1992, according to a U.S. Department of Commerce analysis. All states except North Dakota and Utah posted gains, the analysis shows. In addition, during those five years, U.S. business has turned a $5.7 billion trade deficit with Mexico into a $5.6 billion surplus.

Supporters of the North American Free Trade Agreement (NAFTA) are using those and other new economic statistics in an intense campaign to gain congressional support for the trade pact. The agreement would ultimately create a free-trade area consisting of Canada, the United States, and Mexico.

The fate of the agreement is likely to be determined by the House and the Senate by year-end.

Opponents of NAFTA argue that its approval would result in massive migration of U.S. jobs to Mexico, where wages are much lower.

Some low-skill, low-wage jobs would be lost to Mexico in the short term, acknowledge NAFTA supporters led by the Clinton administration and the U.S. Chamber of Commerce. However, if NAFTA is approved, they contend, about 200,000 new high-paying American jobs would be created by U.S. exporters by 1995, in part because of a mandated reduction of Mexican tariffs, which now average 250 percent of U.S. duties.

New Help On Doing Business In The Former U.S.S.R.

The U.S. Chamber of Commerce recently published three two-volume Datafiles of information on the business and economic conditions, potential commercial contacts, and fledgling commercial laws and regulations of the newly independent states of the former Soviet Union.

One Datafile covers Russia, another covers Central Asia, and a third covers the western Commonwealth of Independent States and Transcaucasia. The Datafiles are $65 apiece or $130 for all three for Chamber members ($75 each or $150 per set for nonmembers). Call (202) 463-5460 to order.

Kay Larcom, a contributing editor of the Datafiles, advises those interested in doing business in Russia to also contact two independent, nonprofit organizations that promote U.S. trade and investment in that country: The U.S.-Russia Business Council, (202) 956-7670, and the Russian-American Chamber of Commerce, (212) 339-5564. Another good source, she says, is the U.S. Department of Commerce, (202) 482-4655.

AWARDS

SBA Seeks Nominations For Person Of The Year

The U.S. Small Business Administration (SBA) is soliciting nominations for its 1994 Small Business Person of the Year award. Criteria include staying power, growth in employment, increase in sales, innovation, response to adversity, and contributions to the community.

SBA is also seeking nominations for several other award categories, including advocates of the year, exporter of the year, and young entrepreneur of the year.

Nominations close Nov. 5. For more information, call your SBA regional office or 1-800-827-5722.

GOVERNMENT ASSISTANCE

Agency Publishes Guidelines For Access To Technology

The U.S. Department of Energy has published guidelines that should assist small-business people in gaining access to technology developed by federal laboratories and other government facilities.

Included in the guidelines are the names and telephone numbers of employees at the agency in Washington and in regional offices, program offices, and laboratories that are specifically assigned to facilitate the transfer of technology to small companies.

To receive a free copy of the guidelines, call (202) 586-5388. NB

Growth Of U.S. Merchandise Exports To Mexico, 1987-1992

State	Percentage Increase	Dollar Increase (In Thousands)
Alabama	227.5%	$ 183,267
Alaska	14.3	75
Arizona	186.2	1,200,470
Arkansas	213.6	80,565
California	190.5	4,299,661
Colorado	118.4	82,038
Connecticut	142.8	164,743
Delaware	462.8	129,751
D.C.	43.8	2,158
Florida	203.1	444,800
Georgia	328.8	355,406
Hawaii	71,357.7	43,184
Idaho	215.0	24,161
Illinois	384.7	1,070,910
Indiana	32.6	88,277
Iowa	202.6	133,893
Kansas	150.4	187,987
Kentucky	356.8	154,363
Louisiana	99.6	375,828
Maine	774.3	20,786
Maryland	247.6	42,197
Massachusetts	163.7	163,867
Michigan	31.8	342,770
Minnesota	190.5	171,445
Mississippi	95.9	50,356
Missouri	70.4	139,890
Montana	230.1	2,805
Nebraska	124.6	55,527
Nevada	1,638.3	44,332
New Hampshire	243.1	23,801
New Jersey	155.4	294,046
New Mexico	249.4	22,592
New York	82.3	421,787
North Carolina	364.9	345,406
North Dakota	-63.0	-25,109
Ohio	188.6	462,623
Oklahoma	186.0	82,309
Oregon	451.8	87,994
Pennsylvania	309.9	561,250
Rhode Island	181.8	26,663
South Carolina	295.3	95,519
South Dakota	39.8	2,133
Tennessee	310.1	313,012
Texas	191.4	12,374,025
Utah	-28.3	-10,478
Vermont	723.2	18,584
Virginia	285.9	117,388
Washington	577.5	481,537
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Managing Your Small Business

Cutting costs on the move; sharing executive insight; keeping your sales staff happy.

By Roberta Maynard

THE WORKPLACE

Doing It Yourself Lowers Moving Costs

Moving a business just a few blocks can be as difficult and almost as expensive as moving a family cross-country. But Donald A. Lace Jr., president and CEO of Actodyne General Inc., found ways to reduce those costs recently when he moved his high-tech manufacturing operation to a new location in Huntington Beach, Calif.

The most important thing is to shop for a mover, he says. "We found a mover who was willing to work with us and who actually suggested ways for us to save money."

Be sure to get a breakdown of any extra charges, he says. For example, Lace found he could save 35 to 50 cents a box by buying his own packing boxes.

More money was saved by having his 20 employees pack the smaller items, such as the contents of bookcases and desk drawers. Lace says the employees enjoyed the change of pace.

Lace also economized by renting the mover's truck for a day at a cost of $50 an hour, enabling him to reduce the professional moving company's time. His employees moved all but the largest items.

Because some of the moving was being done by nonprofessional movers, he took the precaution of paying about $40 for a one-day rider on his general insurance policy to boost the replacement coverage of the items being moved.

Lace's do-it-yourself approach saved $6,000 from the moving company's original estimate of $10,000. His electric-guitar-sensor manufacturing line was down for only four hours on moving day. ■



PHOTO: SAM MENDENHALL

Relocation costs *at CEO Donald A. Lace Jr.'s firm were cut when employees, including production supervisor Mike Alderman, helped move supplies.*

PERSONNEL

Employee Contracts Protect Companies

Once you have reached an agreement to hire a job applicant, putting the terms in writing could keep you out of court later, advises Steven Mitchell Sack, a New York City labor lawyer and author of *The Hiring and Firing Book: A Complete Legal Guide For Employers.*

Written agreements limit misunderstandings about benefits and salary and can also head off problems that may result from promises made to employees by recruiters or employment agencies.

Companies can benefit from employee contracts in other ways. For example, employees can be compelled to resolve disputes by arbitration rather than litigation. And restrictive covenants can protect the company, Sack says, by barring former employees from starting a competing business or using your firm's confidential information or customer lists.

A few tips: Explain the terms of your agreement clearly; have changes and strikeouts initialed by a company officer and the employee; and be sure that the employee signs the agreement.

Agreements should also be executed for part-time employees to confirm the benefits offered and, more important, those not offered.

Sack's 368-page book covers virtually every aspect of the employee-employer relationship and includes 26 sample forms, agreements, and policy statements. For a limited time, the book is available to *Nation's Business* readers for $130, which includes handling, postage, and sales tax. To order, call 1-800-255-2665 or send a check to Legal Strategies, Inc., 1795 Harvard Ave., Merrick, N.Y. 11566. ■

COMMUNICATIONS

An Earful Of Tips For The Phone-Wary

Business people who must routinely make phone calls to potential clients—and hate doing it—might find help in these tips for painless phoning from Ilise Benun, of The Art of Self-Promotion, a firm in Hoboken, N.J. When calling a prospect:

■ Tell how you got the person's name; it makes the prospect more receptive.

■ Before you launch into your introduction, be sure you haven't interrupted a meeting or a race to meet a deadline.

■ Use a script or an outline so you won't forget important points.

■ Ask questions to uncover needs you can address directly; don't waste time on services the prospect doesn't need.

■ Take notes during the conversation. Then, in a follow-up letter, refer to something the prospect said on the phone.

■ Set goals for the number of people you will call. Don't get hooked on the number of responses. Just commit to making five to 10 calls a day. ■

MOTIVATION

Salespeople Need Realistic Quotas

Unrealistic, across-the-board sales quotas drive good salespeople away, according to a new book for sales managers by Greene Training International, Lake Forest, Ill.

Companies that use a one-size-fits-all method of setting quotas have higher turnover rates; lower turnover is found in companies that assign individual quotas.

Quotas should be based on probable sales achieved, not on a corporate goal for



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company sales, says Henry M. Greene, president of the training firm. "Salespeople like to win. When quotas make winning impossible, success-oriented people will go somewhere else."

In addition to setting achievable quotas and providing good compensation plans, companies must also attend to the special needs of high performers. "Salespeople need power and recognition," Greene says. "By appealing to that, you increase their loyalty and staying power." Let them share their success stories. Ask them to give a presentation on how they overcame difficult objections in a recent sale.

Finally, motivated salespeople typically see paperwork as interference, Greene says. To minimize frustration, provide follow-up assistance or support with detail work. That not only keeps them happier, it also leaves them more time to sell. ■

FINANCE

Good Business Plans Address Pros, Cons

"The best business plans contain the right mixture of fact and salesmanship," says Joseph Mancuso, CEO of the Center for Entrepreneurial Management, Inc., in New York, and author of several books on business plans and small-business management. "The single biggest problem is that businesses get confused between a sales brochure and a business plan. They paint a rosy picture, but a good business plan should address the negatives" as well as the positives.

You do need the salesmanship to get the reader excited about the business opportunity, Mancuso says, but many plans lack the necessary financial information, even a balance sheet. Such an incomplete presentation wastes the time of everyone involved, he says.

Before beginning your plan, try to read plans from other companies to see what you like and dislike, Mancuso suggests. And ask your bank for guidance; many banks give away copies of published books or provide their own written suggestions for drafting an effective plan. "A real turnoff to banks and venture-capital sources is when you can tell the plan has been done using a fill-in-the-blanks computer program," he says.

Another consideration is the plan's length; shorter plans usually receive more attention. Because investors leaf through many plans, it may help to include unusual charts, product attachments, or other eye-catching elements to make yours stand out. And keep numbers updated.

For more information, see "How To Write A Business Plan," in the February *Nation's Business*. To order a copy, send a written request for reprint No. 8933 and a check for $1.99 to *Nation's Business*, Reprint Manager, 1615 H Street, N.W., Washington, D.C. 20062-2000. ■

NETWORKING

CEOs Pool Their Experience For Mutual Benefit

For 36 years, TEC, The Executive Committee, based in San Diego, has provided a forum for member CEOs around the world to benefit from one of the most valuable tools in business: networking.

TEC groups, which meet throughout the United States, are made up of about 12 noncompeting business owners from the same geographic area. Each month, they meet for a day to discuss problems ranging from cost cutting to succession. Alternating with these are private meetings with the group's trained facilitator.

To become a member, a CEO must have been in business long enough to bring experience and insight to the group. Companies must have annual revenues of at least $2 million and at least 25 employees. TEC has about 2,400 members in the United States and about 600 abroad.

The key to TEC's success is the willingness of members to be blunt with each other. Trust is so critical to the process that acceptance of new members is decided on by the entire group.

This kind of networking may soon be available to small businesses. TEC has begun testing on a very small scale in Portland, Ore., and Cincinnati. Bill Williams, TEC's president, says the group will try to determine whether smaller firms can benefit from the program the way larger ones do, considering the smaller companies' often greater constraints of money and time. ■



PHOTO: PAUL PETTERS

Experienced executives *nationwide, such as these in the Washington, D.C., area, discuss business problems each month as members of The Executive Committee.*

NB TIPS

A Home Business For You?

For those who haven't quite decided whether to make the move, *The Home-Based Entrepreneur,* written by small-business owners Linda Pinson and Jerry Jinnett, offers a realistic look at the advantages and disadvantages of a home business.

This guide includes practical advice on how to start and maintain a business, with information on zoning and labor laws, business licenses, and pricing and marketing, as well as cash flow basics and tax considerations.

The 170-page softcover book, written in an easy-to-use format, contains a listing of federal and state resources and business publications, a glossary of business terms, and several sample worksheets to help with accounts receivable, inventory, and more. The book is available in bookstores for $19.95 or from the publisher for an additional $4 for postage. Call 1-800-235-8866.

Getting The Facts

The Art of Being Well Informed shows business executives how to get the facts they need to stay competitive: for example, how to get demographic information on chain-saw users for a firm that produces a safety accessory; how to get Indonesia's new export regulations for a company negotiating an importing contract; learning the profitability of a health-club business for an executive considering purchasing a franchise.

The book also addresses the cost of information and how to frame requests for best results. Included are a database directory and lists of sources.

The 208-page paperback is by Andrew P. Garvin, president of FIND/SVP, Inc., a New York-based consulting, research, and information-gathering service, with Robert Berkman and Hubert Bermont. It is available at bookstores for $12.95 or by calling Avery Publishing Group at 1-800-548-5757. ■

Making It

Growing businesses share their experiences in creating and marketing new products and services.

A Company Built On Stress

By Sharon Nelton

When a neighbor in Farmington, Mich., in suburban Detroit, took Tahir S. Cheema for a ride in an airplane some years ago, Cheema, a design engineer at Chrysler, decided that if he ever started a business of his own, it would have to involve flying.

"I just fell in love with aviation," says Cheema, who initially came to the United States from his native Pakistan as a college student.

Cheema got his pilot's license in 1980, and five years later, with two partners, he started Grand Aire Express, Inc., a 24-hour on-demand air charter service that carries freight, people, even transplant organs. To buy their first airplane, a Piper Aztec, they each contributed $10,000 from personal savings and borrowed an additional $4,000 from a bank.

By 1987, Cheema had remortgaged his house twice to buy out each of his partners. He was working full time at Chrysler and, with the help of his wife, Katrina, whom he met when they were students at the University of Alabama, was running Grand Aire as well. He quit Chrysler the next year to devote all of his time to the fledgling company. "Unless you try it, you don't know if you can do it," he says.

Grand Aire had a hangar at Detroit Metropolitan Airport, but the Cheemas ran the business from their home in Farmington. "I was the pilot and salesman; Katrina was the dispatcher," recalls Tahir Cheema, the company's president. Katrina was "nine months pregnant" with their third child, he says, and "it was quite stressful."

Actually, it's a business built on stress. Cheema knows most of his customers are under pressure. "When they call us, they have no other option," he says. Perhaps a truck broke down on the road somewhere and a delivery can't be made on time unless the customer turns to an air charter service.

Air charter is expensive, he points out. On a recent day, a short trip by Grand Aire in a small, single-engine aircraft cost General Motors $400, and Federal Express was billed $18,000 for a larger Grand Aire plane that went first to Memphis, Tenn., and then to Los Angeles.

However, if an assembly plant shuts down because a vital delivery was not made on time, Cheema says, it can cost the customer perhaps $100,000 an hour, making the cost of a $3,000 or $4,000 charter insignificant.

Grand Aire outgrew its space at Detroit Metro and in 1989 moved to Monroe Custer Airport, a city-owned airport with

Grand Aire Express founder *Tahir S. Cheema and his wife, Katrina, the company's vice president, review flight plans in the Monroe Custer Airport hangar in Monroe, Mich.*



a 5,000-foot runway in Monroe, Mich., near Detroit. The business has become two companies: Grand Aire Express, the charter service, serves major clients that include Ford Motor Co., United Parcel Service, and Mazda, as well as GM and Federal Express. Grand Aire Operations, a general aviation services company, manages the Monroe airport, sells fuel, and offers aircraft maintenance and rental and flight instruction.

The combined businesses last year brought in $5.3 million, with 80 percent of that coming from the charter service. "That's our bread and butter," says Katrina Cheema, Grand Aire's vice president. The Cheemas expect 1993 revenues to top $9 million and the number of trips to exceed 1,500, up from 1,000 last year.

The Grand Aire Express fleet has grown to 13 airplanes, and the company now has additional facilities in Louisville, Ky. By next year, Tahir Cheema expects to more than double the firms' nearly 60 employees and add seven aircraft.

This year Grand Aire Express was named a state honoree in the Blue Chip Enterprise Initiative program sponsored by the Connecticut Mutual Life Insurance Co., the U.S. Chamber of Commerce, and *Nation's Business*. The program recognizes small businesses that have overcome challenges and emerged stronger.

At a time when other air charters have failed, Cheema says the secret of his success is "customer, customer, and customer." He focuses on building trust with clients. "Don't lie to them," he says. "Tell them what you *can* do." Cheema says being upfront with customers "has paid off over the years. They know if Grand Aire says we're going to be there in two hours, we're going to be there in two hours. Or if we say we're going to be there in 20 minutes, we will be there in 20 minutes."

Cheema makes it a point to keep flying. "That keeps me close to the problems," he says.

One flight that stands out in his memory took place one snowy night when he was still the company's only pilot. He got a call to transport a kidney from Detroit to Lexington, Ky., within two hours. It was his first transplant flight. While he was driving to the airport he struggled to put on his shoes and then filed his flight plan via cellular telephone.

When he held the box that contained the kidney, he thought, "This is somebody's life in my hands." Because it was a life-support flight, he was cleared for immediate takeoff. "I was so surprised. I thought, 'Gee, I'm royalty here.' "

He got the kidney to its destination safely—20 minutes ahead of schedule. ■

Smooth Horse, Happy Rider

By Sharon Nelton

Karen Johnson was in her early 20s and was an award-winning equine showman and trainer when she was told by her doctor that her riding days were over. She had been riding horses since she was 7, and the abuse of her back over the years had led to the disintegration of one of the lower discs. Riding had become painful, but being told she couldn't ride again was worse. "That's like telling me I can't breathe anymore," Johnson says.

Seven years later, in search of a breed she might be able to ride, Johnson mounted a Peruvian Paso. The ride was so smooth and gentle that, for once, her back didn't start to hurt.

"It was just incredible riding a Peruvian for the first time," says Johnson, now 37. "I just couldn't stop giggling."

It was the miracle she was looking for, one she is now sharing with others as one of the few brokers of purebred Peruvian Pasos in North America. Through her company, Valley Creek Farm, Inc., in Lake Geneva, Wis., she also boards and trains Peruvians and gives buyers riding lessons.

Trotting horses like the ones she grew up with, Johnson explains, "move on the diagonal, so the back left leg will move forward at the same time as the front right leg." The shift to the other legs produces the jarring motion that damaged Johnson's back.

The Peruvian Paso is a gaited horse that Johnson describes as moving "on a four-beat." First the back leg and then the front leg of one side move forward, followed by the back and front legs of the other. "It's like a baby crawling," she says. She adds that the front legs "swim" out instead of move up toward the rider.

"You just roll with the horse," Johnson says. "It's amazing. It's kind of like sitting on a couch. It really is."

Peruvians, descendants of the Spanish war horse, were introduced into Peru in 1530. They were first brought to the United States about 25 years ago, and Johnson says there are still only about 8,000 of them in the country, compared with millions of the more popular breeds.

The business got its start when Karen's husband, Tom Johnson, who sells commercial printing, wanted to move to the country from Lake Forest, Ill., north of Chicago, where they both grew up. Once they bought the 134-acre farm, she felt that the one Peruvian she owned wasn't enough. "I wanted a lot of horses, and I wanted to get the public aware of these horses."

In 1990, her first year in business, she sold five Peruvians for about $5,000 each. The following year, she sold 10. Last year, she began offering Peruvian tack, the handmade, traditional, formal dress saddle and gear of the Peruvian Paso. She sold 20 horses, and, with Peruvian tack selling for about $2,000 a set, Valley Creek Farm brought in $115,000. This year, Johnson hopes to sell 30 horses.

Breeders from as far away as Mississippi and Kentucky place horses for sale with Johnson, who as yet has no employees. She promotes her business by exhibiting the horses at shows and advertising in specialty magazines such as *Caballo* (Spanish for horse), *Peruvian Classified*, and *Conquistador*.

In May, Johnson staged her second annual Peruvian Paso Promenade, which is held at the farm to introduce the breed and give visitors a chance to ride. This year the event attracted about 200, compared with fewer than 100 last year.

For Johnson, it's always a thrill to see someone who hasn't ridden for years because of an injury mount a horse again. "I get to relive that No. 1 day riding for the first time again with so many people. I get to see it again for the first time through their eyes and listen to *them* giggle." ■



PHOTO: BRUCE M. BUCHANAN

Despite back problems, *Karen Johnson, in traditional Peruvian attire, enjoys a gentle ride on her Peruvian Paso, Rafael.*

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"The Customer Is The Answer"

By Michael Barrier

After he graduated from Harvard Business School in 1964, John W. Humphrey worked as a salesman in IBM's Hartford, Conn., office. He recalls that one of his colleagues "was a guy who had been one of the first six salespeople that [IBM founder] Tom Watson hired; he sold butcher scales."

At a meeting one day, the branch manager announced to the assembled sales force—a group of about 150, some standing and some seated—that this veteran was retiring. The salesman said a few words and then told everyone that he was going to exercise the retiree's privilege and go home early.

The retiree got up and walked out, leaving his seat empty, very briefly, Humphrey says, before "some well-scrubbed young toad came down the aisle and sat down." As the retiree "turned and walked out," Humphrey says, "before my eyes, the hole in the company disappeared. It was there for like 30 seconds. I decided at that moment to go someplace that when I left, the hole wouldn't be filled in 30 seconds."

For Humphrey, as for many people like him, that someplace was a company of his own. In 1971 he co-founded the Boston-based Forum Corp., which he heads as chairman and CEO. Forum has about 300 full-time employees, and Humphrey puts last year's revenues at about $40 million.

"Forum is part of what we call the employer-sponsored training system, and we are in the customer-specific segment of that," Humphrey says. In other words, Forum tailors its training to a particular company, as opposed to offering courses that anyone can attend. That means, Humphrey says, that "we have to understand the customer's needs and meet them with some sort of education or training remedy."

Most of the companies that Forum works with have more than 200 salespeople or managers. Very small companies are not candidates for Forum's services, Humphrey says, because Forum would have to charge too much.

Forum's smallest client is Plymouth Rubber Co., a Canton, Mass., manufacturer of rubber and vinyl tapes for the automotive and electrical industries; it has 325 employees and annual sales of about $50 million. Forum provided training several years ago that paved the way for a Total Quality Management program at the company. Forum's trainers "were tremendously effective at consciousness-raising," says Maurice J. Hamilburg, Plymouth's president.

When it works with a company, Forum first gathers data on finances, employees, and customers and reviews the information with senior managers. Forum's people work with a company's leaders "until we have a vision of where they want to drive the organization that they can all buy into," Humphrey says. There is what he calls the problem of "alignment," when an organization says it wants to achieve certain objectives but its leaders' actions send a different message.

High-ranking executives "don't realize how much pain they cause," he says. "It's easy to be out of touch with your customers and your people. You don't have to be a very big company before you lose track of what's really happening."

Only when a company's leaders are "aligned" can they teach those in the lower ranks. Forum doesn't train everyone in a company itself; instead, it trains a core of executives in spreading their vision to all employees. "The quality process means that you train everybody," Humphrey says.

Such training can bear unexpected fruit. Humphrey tells how employees who performed a simple task—opening cardboard boxes—applied the problem-solving techniques that Forum had introduced. The employees were using a knife that their supervisors had told them to use, but the knife was cutting not only the boxes but also the product inside. The workers remodeled the knife so it would not cut the product. As a result, Humphrey says, that company is saving $600,000 a year.

As Humphrey's reference to quality suggests, Forum keeps track of the currently hot management theories, but, in addition, "we do a lot of research," he says. "We collect best-practice research from our customers so that when we put somebody in a training program, we've got confidence in it." The idea is to lock on to what really matters, without being distracted by what Humphrey calls "the sea of data that surrounds everybody."

The "huge change" at the heart of the quality movement, for example, is a heightened awareness of the customer, Humphrey says. "It won't go away," even if the labels applied to it—what he calls "the hood ornaments"—fall out of favor. "The customer is the answer to whatever question you ask," he says. "The trick is to get your company focused on the customer, and then to get your people and your processes aligned to serve that customer."

How can businesses persuade their people to approach their work in the right spirit? "Connect them to the real vision of the company, and give meaning to their work," Humphrey says. "That's what people want from their leaders." And the customer is key to providing that meaning, he says: "The people who don't feel good about their work are the people who are disconnected from customers." NB



PHOTO: RICHARD HOWARD

John W. Humphrey *(in shirt sleeves), chairman of Forum Corp., meets with some of his employees.*

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COVER STORY

Taking Charge Of Workers' Comp

By Roger Thompson

The high cost of workplace accidents and injuries threatened the future of Mid-Atlantic Packaging Inc. in the spring of 1991. During the previous year, the Montgomeryville, Pa., company's 80 employees had racked up 17 injuries and more than $400,000 in workers' compensation claims. But the potential toll for the company—a manufacturer of corrugated cardboard boxes—added up to far more than the sum of its workers' comp insurance claims. The company's financial health was suddenly in jeopardy because of the steep premium increases expected to follow its poor accident record.

"We told the employees clearly that if we did not improve, this could put the company out of business," recalls Andrew Pierson, the general manager. "We could not have $400,000 in workers' comp claims and stay in business."

The company immediately embarked on an accident-prevention program that resulted in a stunning turnaround. For the year that ended in July, the company posted no injuries and thus filed no claims.

The spotless accident record also yielded big dividends. Mid-Atlantic Packaging, which pays more than $3,000 per employee in annual workers' comp premiums, got a six-figure workers' comp rebate this year from its insurance company.

The path that Mid-Atlantic took to reverse its disastrous workers' comp record is one that many small and midsize businesses have been discovering: Safety is the first line of defense against a rising tide of workers' compensation costs.

Ask David Stanley, vice president of Wayne's Tire in Paso Robles, Calif. The central California company operates five tire stores and employs 50 workers. It went from 15 claims totaling $240,000 in 1991 to just one claim—for $243—through this past July.

Allan Sherman, president of American Property Construction in Alexandria, Va., has a similar success story. The company, which has about 85 employees, has sharply reduced the yearly number of its claims. In 1989, for example, the company filed nine workers' comp claims for a total of $136,000; through the first half of this year, there has been only one claim, for $5,232.

Marlene Serne, director of human resources for Trendway Corp., of Holland, Mich., has an even more remarkable story. The office-furniture manufacturer's 300 employees went four years with no injuries requiring lost time at work. The string was broken in June 1992, when a worker suffered a hernia. But there have been no lost-time accidents at Trendway since then.

Prevention comes first, but when accidents do occur at any of the companies mentioned above, each activates its second line of defense: immediate, appropriate medical care and a quick return to work, even in a modified capacity, for the injured employee. Those steps together can pack a powerful, cost-saving punch.

"Most small employers don't have a lot of injuries, but when they do, they have to know how to respond," says Jonathan Coppelman, manager of training and development for Lynch, Ryan & Associates Inc., a workers' compensation consulting firm in Westborough, Mass.

Early reporting of injuries and quick medical response can drastically reduce total claim costs. A recent ITT Hartford Insurance Group study of 200,000 claims



PHOTO: SAL DIMARCO JR.—BLACK STAR

The accident-prevention program *at Mid-Atlantic Packaging enables Vernon Vinson to load pallets of cardboard boxes without bending or lifting.*

Aggressive accident prevention and quality management have far more impact than new laws when it comes to controlling workers' comp costs.









Employers clearly need all the help they can get to rein in workers' comp expenditures. Workers' compensation is a state-regulated insurance system requiring most employers in all but three states (it's voluntary in New Jersey, South Carolina, and Texas) to purchase coverage that, regardless of fault, pays the medical bills and a sizable portion of lost wages for workers injured on the job.

Business on average spent $564 per employee on workers' comp insurance in 1992. That amounts to $62 billion nationwide, double the amount spent seven years ago. And the tab is expected to more than double again by 2000, according to projections by the Towers Perrin consulting firm.

The total cost for each injury involving lost work time is also on the rise, averaging $22,795 in 1991. That is double the average claim cost in 1985.

But averages mask huge differences in workers' comp costs from state to state and from business to business. Because the system is governed by the states, one state's rates may be two or three times higher than another's, giving states with relatively low rates a competitive advantage in attracting and retaining businesses. (See the box on Oregon, Page 22.)

Because workers' comp premiums are in part based on experience, the more accidents a company logs, the higher its costs. Conversely, the lower the accident rate, the lower the insurance premium. Many accident-prone companies pay thousands of dollars in premiums per employee each year, rivaling their expenses for employees' health insurance.

The resulting economic toll on state economies and individual businesses has catapulted workers' comp to the forefront of issues facing many legislatures. Thirteen governors included workers' comp reform measures in their state-of-the-state addresses earlier this year.

Recognizing the spiraling costs, the Clinton administration has put workers' comp on its long list of potential targets for national health-care reform. The administration announced last spring that it is considering folding medical coverage under workers' comp into a new national health-insurance plan that would pay benefits without regard to whether an injury occurred on or off the job.

Waiting for federal or state reforms to drive down costs, however, can be an expensive mistake for many companies, says Catherine K. Johnson, a principal with HJH Consulting Inc., in Tampa, Fla. "Granted, reform in many areas is needed. But legislative reform alone will be ineffective in reducing costs unless employers reform their internal systems of loss prevention and post-injury management."



PHOTO: BRIAN BIEDE

The day begins *for workers at Trendway Corp. with five minutes of upper-body exercises to increase flexibility.*

In short: Put safety first. But go beyond the traditional approach to safety. It's not enough simply to post rules and hand out safety equipment—the types of efforts designed primarily to comply with federal and state rules.

"Over the years, safety in the American workplace has become equated with regu-

involving lost work time showed that injuries reported to the insurer within the first 10 days of occurrence were 47 percent less costly than those reported more than 31 days after the occurrence—$5,859 compared with $8,633. Early reporting enables an insurer to get a quick start in arranging for the medical and rehabilitation services required by injured employees.

"Many employers have realized that disability incidence and costs are, at least to some degree, within their control," concludes a study released in May by the W.E. Upjohn Institute for Employment Research, based in Kalamazoo, Mich. "Employers who have not yet begun to pursue disability prevention and management strategies in a systematic and diligent way will find that this is an increasing source of competitive disadvantage."

latory compliance," says Larry Hansen, manager of loss-control services for the Wausau Insurance Cos., based in Wausau, Wis. Many companies believe that "to have a safe workplace, you comply with OSHA [the federal Occupational Safety and Health Administration] or state laws," he adds. But compliance with OSHA regulations "is never going to be good enough," Hansen says.

Indeed, there are far more workplace injuries being reported today than there were shortly after OSHA was created by Congress in 1970. Since 1972, the first year for which figures are available, the number of days missed by workers as a result of injury or illness has increased by 80 percent, rising from 47.9 lost workdays per 100 workers in 1972 to 86.5 in 1991, according to the Bureau of Labor Statistics. (Data for 1992 are not yet available.)

"We have 20 years of standards setting and regulations [under OSHA], and still we see no improvements" in reducing injuries, says Allan Hunt, assistant executive director of the Upjohn Institute.

When accidents do occur, managers typically "blame the 'stupid' employee," Hansen says. "As long as managers view accidents as a result of bad employee attitudes and carelessness, nothing is going to change," he adds.

In a break with traditional thinking about the causes of accidents, Hansen is a leading proponent of the view that organizational style and management processes—not worker carelessness—are the root causes of most accidents.

Two studies by the Upjohn Institute—



PHOTO: GLINDA SUE SCOTT

A safety cage *around a tire is among the devices that protect Todd Kanamori from injury at Wayne's Tire.*

one published in 1988 and the other last May—underscore this point. The first found that within the same industries in Michigan, the most accident-prone employers had 10 times as many workers' comp claims as the least accident-prone.

Both studies identified several characteristics that distinguish the low-claims companies. Chief among the characteristics: aggressive programs of accident prevention and early return to work for injured employees, undergirded by active safety leadership from top management and a people-oriented work environment characterized by open communication, positive work relationships, and high employee morale.

The second study concludes: "The challenge has been issued; disability can be managed, and those who do it well can expect to be rewarded with lower disability costs, more-satisfied workers, greater productivity, and, ultimately, higher profits."

The way workers feel about their jobs may be more important for accident prevention than traditional safety training, says Hank Sarkis, president of The Reliability Group, a consulting firm in Miami. He says his research involving 2,700 employees in various industries shows that employee job satisfaction, cheerfulness in the workplace, job autonomy, and low levels of job stress are among the key determinants of a safe workplace. (See the box on Page 21.)

"There is no such thing as a safety problem," Sarkis concludes. Poor safety records reflect "a management-level problem."

Coppelman, of Lynch Ryan, puts it this way: "What it comes down to is the quality of the relationship between the employer and the employees. If you treat your employees well before they are injured and after they are injured, you are not going to have a workers' comp problem."

Mid-Atlantic Packaging put much of this new thinking about workplace safety into practice. "We made sure that the employees understood that this wasn't *their* problem, it was *our* problem," says Pierson, the general manager.

Among the many steps it took, Mid-Atlantic:

- Demonstrated a commitment from the top to become serious about accident prevention. The company's owners gave Pierson a "blank check" to pursue an aggressive accident-prevention and safety-training program.
- Organized a safety committee that included top management and a representative from every department in the company.
- Established financial incentives that provide weekly, monthly, and annual cash awards to employees for safety.
- Set up a system that encourages employees to report unsafe actions. Research shows that 96 percent of accidents result from unsafe actions, not unsafe conditions, Pierson says. The reports are used to correct problems before accidents happen, not to punish employees.
- Brought in instructors to give clinics in stretching, bending, and lifting. Back injuries account for nearly one-fourth of workers' compensation claims nationwide, according to the National Safety Council.

Safety equipment *is used on site by Vincent Houslin, left, and Dai Karoma of American Property Construction.*



PHOTO: T. MICHAEL KEZA

A curb ramp *designed by Walker Spann, left, counters back strain for Pearlstine Distributors employees like Kelly Lewis.*



PHOTO: GBILL JORDAN

The company's efforts altogether have created a positive attitude about accident and injury prevention, Pierson says. One major benefit is that employees now spend time coaching their co-workers on safety, promoting teamwork.

Mid-Atlantic's success with eliminating accidents illustrates how companies can make the transition from simply policing employee compliance with safety rules to creating a "safety culture" in the workplace. The roads to success are as varied as the companies that pursue it.

At Wayne's Tire, supervisors got serious about safety after they were made aware of the toll that accidents were taking on the company's bottom line and their own paychecks, says David Stanley, the company's vice president. Managers were offered new financial incentives to improve safety. And employees started wearing back belts to reduce back strain and goggles to prevent eye injury.

The company also improved the way it dealt with injured workers, helping them get appropriate medical care and keeping in contact with them while they were at home recuperating. Injured workers were also encouraged to return to work part time and in modified capacities until they had recovered completely.

More-rigorous screening of job applicants turned out to be one of the most effective safety strategies adopted by American Property Construction. When construction was booming several years ago, "we didn't have time to check the references of every applicant," says Allan Sherman, president. Workers' comp claims went up as a result because some of those hired were not suited for the work.

After an employee suffered a broken back in a workplace accident, Sherman and his partner "decided to take more time to educate our employees in safety and to say something any time we found an infraction," he says. They made it clear that the company meant business. Workers who showed up on construction sites wearing sneakers were sent home. No one was permitted to use a power saw without wearing goggles.

Sherman also stressed the link between costly accidents and weekly paychecks. "We explained that we would have more money to pay them, and more money to put into profit sharing," by bringing accidents under control, he says.

Although the degree to which certain factors make a difference in claims is difficult to measure, Sherman believes employees' attitudes do have an impact on workplace safety. "We try to make them have a home here," he says. The company offers higher salaries than most construction firms, vests employees in profit sharing after five years, and promotes from within. The 13-year-old firm's two vice presidents started as carpenters, and 17 of the company's first 30 employees are still working there.

Employee attitudes also play an important role in Trendway's admirable safety record, says Catherine Johnson, of HJH Consulting. She toured the facility last year as part of a nationwide research project to identify effective workers' comp safety programs. Johnson says the company's "positive, family-oriented culture" works to prevent accidents.

"I hope the culture of the company has a lot to do with it," says Marlene Serne, the director of human resources.

Among other things, the nonunion company has an aggressive, employee-directed safety program aimed at preventing accidents, not punishing those who identify problems. Ten percent of the employees in each department participate in a safety committee.

The company that administers Trendway's self-insured workers' comp program sends inspectors to the plant every six weeks for a walk-through with an employee safety team. "They go through the whole plant, even the offices," Serne says. "If they do find something, it goes to the safety committee, and their recommendations get top priority."

All employees start their day with a five-minute upper-body-exercise program to increase flexibility and decrease injuries. "We thought it would go over like a lead balloon, but we've been doing it a year and a half, and the employees love it," Serne says.

Workers share the rewards of an accident-free workplace through larger distributions under the company's profit-sharing program. "We communicate profit and loss to employees, and they know that if there is a lost-time injury, it comes directly from profits of the company," Serne says.

In each of the cases above, the companies benefited from expert advice provided by an insurance company or a consultant. The ITT Hartford Insurance Group insures all but Trendway, which is self-insured. Most small companies, however, complain that they get little or no attention from their insurers, and they can't afford consultants.

In fact, 28 percent of all businesses nationwide can't even buy a workers' comp policy in the so-called voluntary insurance market. By default, businesses are forced to purchase their coverage from state-administered pools, where they typically pay more for less than the minimal service they used to get.

To combat this problem, an increasing number of small companies are joining self-insured groups. Traditionally, self-insurance was an option available only to large companies that chose to set up their own internal funds to pay workers' comp claims rather than purchase commercial

A Management Checklist

A poor safety record is almost always a symptom of other more basic problems in a business, says Hank Sarkis, president of The Reliability Group, a consulting firm in Miami. While there may be no quick fix for the apparent underlying organizational problems, Sarkis says, most businesses can achieve results quickly by applying the following general recommendations:

1. All accidents can be prevented. Do not settle for less than perfect safety results.
2. The best consultants are a company's own workers. Allow them flexibility to decide how the work gets done.
3. Do not pressure people to work safely without first knowing the specific causes of accidents in your operation.
4. Encourage first-line supervisors to do everything they can to make the workplace more fun and cheerful.
5. Keep things simple. Don't burden workers with a lot of written procedures.
6. Develop a system for reporting events that almost resulted in accidents in the workplace, but design the system so that it doesn't threaten or blame the employees.
7. Do not place too much emphasis on incentives such as awards or prizes to make an operation safe.
8. Never hire employees; hire partners. All workers should have part of their compensation tied to the long-term financial health of the organization.
9. Provide a method for workers to give supervisors both positive and negative feedback on all operational matters.
10. Don't be satisfied with short-term accomplishments. Always strive for continuous improvement.

COVER STORY

Oregon Sets An Example For Successful Reform

Four years ago, Oregon had one of the worst workers' compensation systems in the country. Businesses paid the eighth-highest insurance rates in the nation, but injured workers received among the lowest benefits.

Today, the state has one of the best workers' comp systems in the country. Sweeping reforms enacted in 1990 doubled benefits to injured workers. At the same time, the changes have led to three consecutive years of double-digit decreases in insurance rates—12.2 percent in 1991, 11 percent in 1992, and 11.4 percent in 1993—and have saved businesses $200 million in premiums. Officials are forecasting another rate reduction in 1994.

The system's total costs have fallen largely because accidents and fatalities have declined steadily while employment has grown. The state in 1989 recorded 39,170 workers' comp injuries resulting in missed time at work, compared with 30,786 in 1992. Over the same period, fatalities declined from 75 to 63. (See the chart at right.)

"Oregon is the only state accomplishing this magnitude of reduction, and it is largely a consequence of occupational safety and health initiatives," says John Pompei, administrator of Oregon's Occupational Safety and Health Division, which administers the state's Occupational Safety and Health Act (OSHA) program.

The 1990 reforms:

- Required all companies with more than 10 employees to set up a joint labor-management safety and health committee.
- Added 73 people to the Occupational Safety and Health Division staff, many of whom were assigned to voluntary consultations with businesses rather than enforcement.
- Let the state set up a workers' comp insurance plan that, for the first time, grouped diverse small businesses for the purpose of buying insurance as a pool and offered them free safety and management-training programs.

The new emphasis within the state's Occupational Safety and Health Division on voluntary consultation and employer education took root slowly with a skeptical business community, says Gary K. Weeks, director of the Oregon Department of Insurance and Finance. In Oregon, as in other states, the safety and health division has traditionally policed OSHA rules and has meted out fines for noncompliance. But Weeks envisioned making Oregon's Occupational Safety and Health Division a partner with business in correcting problems voluntarily, wielding a big enforcement stick only when necessary. The same law that increased the consultation staff also tripled fines for safety violations.

At first, businesses feared that calling for a voluntary checkup would lead to a follow-up visit from OSHA-program enforcement inspectors. Not so, says Weeks. "The only time the consultation staff shares records with the enforcement staff is when we find imminent danger to employees and the employer refuses to take action," he adds. Once that message got through, the program took off. The number of voluntary consultations increased from 671 in 1989 to 2,430 in 1992.

The state's OSHA program "has turned out to be very helpful," says Richard M. Butrick, president of Associated Oregon Industries, the state's largest business organization. "The consultation service has been great for business," and it has "requests backing up." In fact, the agency in mid-July had a waiting list of more than 800 firms seeking voluntary consultations.

To meet the rising demand, the legislature in late July increased the consultation staff by nine, bringing the total to 39.

Free Workshops

In addition to on-site consultations, the Occupational Safety and Health Division offered free conferences and workshops on safety and health last year that were attended by more than 11,000 employers. "Small employers wouldn't have been able to pay for these services," Weeks says.

Thousands of Oregon's smallest employers have also benefited from a new workers' compensation program called AOI Compwise, developed in conjunction with Associated Oregon Industries. It was created in April 1991 to offer companies insurance with premiums between $500 and $2,500. As of July, more than 12,000 companies from more than 300 business categories had signed up. Most of the firms had only two or three employees.

The legislature launched AOI Compwise to fill an insurance void created when the state-owned State Accident and Insurance Fund (SAIF), Oregon's largest workers' comp insurer, announced it would cancel coverage for 10,000 very small companies because their claims costs far exceeded premiums paid.

A Profitable Alternative

In contrast, AOI Compwise has been profitable while charging rates that are comparable with or lower than those charged by commercial insurers, says Melissa Turner, the program's risk-management coordinator.

From the outset, AOI Compwise has provided a variety of services to help cut workers' comp costs. For example, it offers free educational seminars on accident prevention and employment practices.

"We are finding that most workers' comp claims with this [small-business] group happen in the first year of employment," Turner says. "Obviously, some kind of training or education isn't taking place. Either the wrong person is being hired for the job, or references aren't being checked, or the person isn't being informed of job requirements, or job training isn't being done properly."

Personnel Issues

As a result, the most popular AOI Compwise seminar topics have been personnel issues, such as hiring the right employees, developing personnel manuals, disciplining and discharging workers, and coaching employees to improve job performance.

Since 1990, Pompei estimates, Oregon's workers' comp reforms have saved almost $2 billion in overall system costs. The state's success has attracted a lot of attention. "We're getting calls from all over the country," says Butrick, of Associated Oregon Industries. "Some states have had our materials for three years, but they just don't have the political will to do anything."

Accident Prevention Pays Dividends In Oregon

	TOTAL EMPLOYMENT	DISABILITY CLAIMS	WORK-RELATED DEATHS
1989	1,212,000	39,170	75
1990	1,254,400	35,857	64
1991	1,258,500	31,479	65
1992	1,276,700	30,786	63

SOURCE: OREGON DEPARTMENT OF INSURANCE AND FINANCE

insurance. But 32 states now permit small firms to pool their resources to create, in effect, their own workers' comp insurance companies. And it's an increasingly popular option.

The Johnson & Higgins consulting firm, based in New York, estimates that 30 percent of all workers' comp dollars flowed into individual company and group self-insured funds in 1992, up from 20 percent in 1986. Florida leads the nation in self-insurance, with 30 self-insured groups covering more than half of all businesses in the state.

The downside of self-insurance is that all of the fund members are liable in the event one member suffers a catastrophic loss or goes out of business and leaves claims unpaid. "You have to make sure that the screening process [for fund members] is a strong one so that the companies are not only economically viable but good at controlling losses," says Coppelman, of Lynch Ryan.

The chief attraction, however, is substantially lower workers' comp costs. And the primary way these groups achieve savings is through rigorous accident-prevention programs and comprehensive management of injuries. Members have nothing but praise for the attention they get.

Walker Spann, executive vice president for operations of Pearlstine Distributors in Charleston, S.C., says his company was serious about safety even before it joined the self-insured fund sponsored by the South Carolina Merchants Association a year ago. "But the insurance companies didn't provide personalized service," Spann says. "They would have someone drop by every five or six months, and they would send you safety films and some brochures."

Instead, the association's fund provides its own safety consultants who lavish personalized attention on member companies, Spann says. His company's recently established safety-training program has helped decrease back injuries from one every two or three weeks to none in seven months, Spann says.

Organization-sponsored programs are proving helpful to many firms in South Carolina. A self-insured fund launched a year and a half ago by the South Carolina Chamber of Commerce now serves 65 manufacturers.

In New Hampshire, a new self-insured manufacturers' fund is receiving high marks from its members. Mark Lindberg, director of finance and administration for Claremont Flock Corp., in Claremont, says that in the first three months after joining the self-insured group earlier this year, "we've seen more loss-control services than we saw in five years from our insurance company."

The self-insured group is administered by ManagedComp, a subsidiary of Tufts' Associated Health Plans, a health-maintenance organization in Boston. ManagedComp has launched similar self-insured funds in several other states.

"There is no magic to self-insurance," says James A. Walker, president of ManagedComp. "People wake up one day and say, 'This is a line item that can be managed.' By going to self-insurance, they begin to pay attention." And they get help they never had before.

Managing safety "is like anything: Someone has to teach you how to do it," says Lindberg. "Certainly, in any company, safety is important. But if you don't know how to make safety a day-to-day part of the company, how to make it part of the thread and fabric of a company, it's never going to happen. One of the things we never had from an insurance company was that kind of leadership."



PHOTO: GILBART BARTHOLOMEW

"Develop a program that changes workers' attitudes," *says Tom Hagerman, left, president of the John H. VanPatten Co.; here he leads a safety meeting for employees.*

Whether individually or collectively through a self-insured fund, small companies clearly can take immediate actions to control their workers' comp costs. But it's a message most small companies still haven't gotten, says Anthony Veltri, a professor at Oregon State University and designer of the school's master's degree program in safety management.

Based on his research, Veltri has identified three types of businesses related to their approaches to safety management:

- Reluctant compliers, who focus on meeting regulatory mandates and avoid any substantial commitments to safety.
- Followers, who mimic the achievements of others but don't pursue individualized approaches to safety.
- Leaders, who break new ground in developing both the technical and managerial skills needed to conduct "world-class" safety-management programs.

Veltri has found that 77 percent of the companies he has surveyed fall into the "reluctant complier" category; 16 percent strive to be followers; and 7 percent exercise real leadership. In short, most companies are half-hearted in their commitment to safety.

To be a leader, "you have to develop a safety program that goes beyond safety," says Tom Hagerman, president of the John H. VanPatten Co., a 50-employee woodworking firm in Santa Fe Springs, Calif. "You have to develop a program that changes workers' attitudes toward the workplace. That's the key." Without a highly effective safety program and a change in his employees' attitudes, Hagerman says, rising workers' comp costs would have forced his company to close.

The smallness of firms like Hagerman's and others that have controlled costs actually works to their advantage, says Hunt, of the Upjohn Institute. "Knowing your employees by first name and showing that you care sometimes has more impact on the bottom line than all the engineering and ergonomic design you can do," he says.

For those companies that procrastinate and put their hopes in state-level reforms, Veltri has this advice:

"We need to dispel the myth that regulators and insurance companies are going to solve this problem for small businesses. The best thing they can do is to help themselves." NB

To order reprints of this article, see Page 77.

TAXATION

The New Tax Law's Business Impact

These examples of how specific provisions could affect your firm aim to help you with tax planning.

By Joan C. Szabo

Tom and Caroline Hoyt, owners of a small residential real estate company in Denver, expect to scale back their company's growth plans now that they must pay higher taxes under the recently enacted Omnibus Budget Reconciliation Act of 1993.

The biggest tax increase facing their 25-year-old firm, McStain Enterprises Inc., relates to the higher income tax rates enacted as part of the legislation, which the Clinton administration estimates will reduce federal deficits by $496 billion over five years.

The Hoyts' firm, like thousands of others, is organized as an S corporation, which means its profits are passed to its shareholders in proportion to their ownership of the firm. Thus, the profits are taxed at the new, higher individual rates.

This taxation provision is one of the characteristics that distinguish an S corporation from a regular corporation, which is subject to two levels of tax—one on earnings and another on dividends distributed to shareholders.

The higher individual tax rates will also affect partners and sole proprietors.

The new law creates a 36 percent rate for joint taxable income over $140,000 and single taxable income over $115,000. In addition, a surtax is imposed on taxable income over $250,000, which effectively raises the top individual tax rate to 39.6 percent from the previous level of 31 percent.

Because certain deductions and exemptions are reduced for individuals with high incomes, it is as if their top marginal rate exceeded 40 percent.

The new law also raises the top corporate rate to 35 percent from 34 percent.

Although supporters of the personal income tax hike said it would affect only the wealthy, the income levels at which the new higher rates apply are not so large for growing small firms. "Our game plan was to build a strong equity base in the company," Tom Hoyt says. "We wanted to reduce debt. But the higher rates will delay our plan by about a year and a half." As a result, the Hoyts expect to pay more money to the federal government and invest less in their business.

"Paying higher taxes also will make us more susceptible to the next economic downturn because it will take the firm longer to build strength," Hoyt says.

Like the Hoyts' firm, an estimated 1 million companies—S corporations, partnerships, and sole proprietorships—will be subject to the higher individual rates. That is about 5 percent of the 21 million tax returns that include small-business income.



PHOTO: BARRY STAVER

Higher tax rates *will likely mean Caroline and Tom Hoyt will pay more to Uncle Sam and have less to invest in their Denver residential real estate business.*

Many of these small companies organized or reorganized as S corporations when the 1986 tax-reform law was enacted. Under that law, individual tax rates were lower than corporate rates, which made it advantageous for a firm to be an S corporation because its profits would be subject to the lower personal rates.

At the same time, however, S corporation shareholders such as the Hoyts must pay taxes on their total profits, even though most such owners reinvest part of their profits in their businesses to keep them healthy and growing.

Tom Hoyt says he has considered switching to the status of a regular corporation—known as a C corporation—but the S corporation has other benefits that must be considered. In general, say accountants, it still makes more sense to remain an S corporation even though some companies will be subject to higher tax rates. This is true, they say, because an S corporation pays only one level of tax, whereas dividends from a regular corporation are taxed twice—as profits to the company and as dividends to the shareholders.

In addition, the taxable gain after the sale of a business can be less for an S-corporation owner than for an owner selling a comparable C corporation.

Another disincentive to switching from S-corporation status is that a company that does so must wait five years before switching back.

A number of accountants and small-business owners say they understand Hoyt's dilemma. They say the higher individual tax rates are probably the most detrimental provision of the law for small firms organized as S corporations.

Thomas Brock, president of Brock & Co., a Longmont, Colo., accounting firm that has many small-business clients, says: "While the new law will have little effect on very small companies, the higher individual tax rates will be very hard on S corporations that are demonstrating strong growth and driving the economy."

Brock expects the higher rates to have a negative effect on overall business growth. For example, he says, "companies that will be subject to higher taxes won't expand as fast, won't pursue opportunities that they might have, and won't buy machinery or computer software that they expected to buy."

Small-business owner Jan E. Smith, president of Jan E. Smith & Co., a

commercial real estate and business investment company in Bradenton, Fla., says he is especially concerned about the reduction in the deductibility of business meals and entertainment. Smith buys and operates small businesses; his firms include several travel agencies and companies in the hospitality industry.

The new tax law trims the deductibility of business meals and entertainment from 80 percent to 50 percent starting in 1994. Smith is concerned that the change will have a severe impact on the hospitality industry. "There may be a number of jobs lost," he says.

One of the few bright spots for very small businesses is the new law's bonus depreciation provision, says Mark Mann, a partner with the FERS accounting firm, in Chicago. The new law increases to $17,500 from $10,000 the amount of business equipment costs that can be deducted in the year the equipment is acquired. There are a couple of stipulations: The amount of the deduction cannot exceed trade or business net income, and the benefit is phased out as equipment acquisitions exceed $200,000 in any one year.

The following summaries of major provisions of the new tax law, many of which directly affect businesses regardless of size, are presented to help you with your tax planning.

Individual Tax Rates

The new law essentially establishes two new individual tax rates. (See the chart at right.) One is a 36 percent rate on taxable income over $140,000 for married individuals filing jointly and $115,000 for single individuals. The other is a top marginal rate of 39.6 percent that is reached by means of a surtax imposed on taxable income over $250,000. The new individual income tax rates are retroactive and apply to tax years beginning with 1993.

Any additional income tax owed by an individual as a result of the new law may be paid in three equal installments without any interest charge. The installment due dates are April 15, 1994; April 17, 1995; and April 15, 1996.

No 1993 estimated-tax penalties will be charged for underpayments of tax resulting from the higher rates, and no extensions will be granted, according to the law. Any taxpayer who plans to use the installment plan must check the appropriate box on the 1993 tax return. Keep in mind that installment payments are available only for tax attributable to the new 36 percent and 39.6 percent rates.

Tax experts say the higher tax rates will make investments such as municipal bonds and other tax-exempt or tax-deferred investments more attractive than they have been in recent years.

New Individual Tax Rates



The new individual income tax rates–which also apply to companies organized as S corporations–begin with the 1993 tax year. With S corporations, income passes to shareholders in proportion to their ownership of the firm and is taxed at personal-income rates.

Married Taxpayers Filing Joint Returns

Taxable Income	Rate
Up to $36,900	15%
Over $36,900 to $89,150	28%
Over $89,150 to $140,000	31%
Over $140,000 to $250,000	36%
Over $250,000	39.6%*

*Married taxpayers will not be able to avoid the top bracket by filing separate returns. The 39.6 percent bracket applies to taxable income over $125,000 for married taxpayers filing separately as well as those filing jointly.

Single Taxpayers

Taxable Income	Rate
Up to $22,100	15%
Over $22,100 to $53,500	28%
Over $53,500 to $115,000	31%
Over $115,000 to $250,000	36%
Over $250,000	39.6%

Individuals Filing As Head Of Household

Taxable Income	Rate
Up to $29,600	15%
Over $29,600 to $76,400	28%
Over $76,400 to $127,500	31%
Over $127,500 to $250,000	36%
Over $250,000	39.6%

SOURCE FOR ALL CHARTS: OMNIBUS BUDGET RECONCILIATION ACT OF 1993

CHART: ALBERTO PACHECO

Corporate Tax Rate

The top corporate rate was raised to 35 percent from 34 percent. It applies to companies with taxable income in excess of $10 million. In addition, those corporations with taxable income over $15 million must boost their tax liability by either 3 percent of the amount over $15 million or $100,000, whichever is lower.

The new rate is effective for tax years beginning Jan. 1, 1993. A corporation whose fiscal year ends after Jan. 1, 1993, must use a blended rate. For example, if your company's fiscal year closes at the end of January, the tax would be calculated by taking eleven-twelfths of the old rate plus one-twelfth of the new rate, for a rate of 34.08 percent.

Alternative Minimum Tax Rate

The alternative minimum tax (AMT) rate—a tax calculation created to ensure that all taxpayers pay at least some federal tax—has been increased. Under the new law, the first $175,000 of alternative minimum taxable income above a specified exemption amount is taxed at 26 percent and the remainder at 28 percent.

The AMT exemption amount is increased to $45,000 from $40,000 on a joint return, to $33,750 from $30,000 for unmarried individuals, and to $22,500 from $20,000 for married individuals filing separate returns.

Itemized-Deduction Limitation

The new law makes permanent the limitation on itemized deductions for high-income taxpayers. For 1993, individuals with adjusted gross income over an inflation-adjusted threshold of $108,450, or married persons filing separately with adjusted gross income exceeding $54,225, will find their itemized deductions reduced. The thresholds will be indexed annually for inflation.

Capital-Gains Rate

The 28 percent maximum rate on long-term capital gains is retained. This rate establishes a substantial differential—12 points—between ordinary and capital-gains income for high-income taxpayers.

The law includes several provisions designed to prevent taxpayers from making investments simply to convert ordinary income into capital-gains income. For example, capital gains will not be included in a taxpayer's investment interest-deduction limitation, resulting in less

of a deduction for investment interest.

Small-Business Capital-Gains Exclusion

A new capital-gains provision has been added to the tax code. It allows a noncorporate taxpayer who has held qualified small-business stock for more than five years to exclude 50 percent of any gain on the sale or exchange of that stock.

Under the law, the amount of gain eligible for the 50 percent exclusion is limited to the greater of $10 million or 10 times the taxpayer's basis in the stock.

The provision has a number of qualifications. For example, for the purposes of this provision, a qualified small business is defined as a C corporation with less than $50 million of gross assets from the enactment date through the date of issuing stock.

Medicare Wage Tax

The new law eliminates the cap on earnings subject to the 1.45 percent Medicare, or hospital-insurance, tax. The cap had been $135,000. The change affects higher-income wage earners, self-employed individuals, and employers. Employers typically withhold the 1.45 percent tax from employee paychecks but then must also match that payment. Thus, self-employed individuals are hit doubly because they must pay both the employer and employee shares, or a combined tax of 2.9 percent on earnings.

Social Security Benefits

The new law boosts the portion of Social Security benefits that some taxpayers must include in income. The change affects couples with modified adjusted gross income above $44,000 and single individuals with such income above $34,000.

As before, Social Security recipients must still include in income the lesser of 50 percent of their Social Security benefit or 50 percent of the amount by which their modified adjusted gross income exceeded $32,000 for married individuals filing jointly or $25,000 for single individuals. In addition, however, effective Jan. 1, 1994, for married individuals whose income exceeds $44,000—or $34,000 for single individuals—the amount rises to 85 percent from 50 percent for the portion of the Social Security benefits included in taxable income.



PHOTO: SUZANNE HALL

Smaller deductions *for business meals could hurt the hospitality industry, says business owner Jan E. Smith of Bradenton, Fla.*

Estate Taxes

The new law makes it difficult for trusts and estates to be used as tax-avoidance vehicles, says Gerald W. Padwe, vice president for taxation with the American Institute of Certified Public Accountants (AICPA), in Washington, D.C. AICPA is a national professional organization of CPAs. The law accomplishes this, he says, "by establishing the tax rates for trusts and estates at low brackets. The result will be to force a trustee or an estate's executor to distribute to beneficiaries all the income of that trust or estate that they can or let the trust be subject to almost punitive taxation." (See the chart on Page 28 for the new rates.)

In addition, the federal estate and gift tax was scheduled to be reduced to 50 percent for taxable transfers over $2.5 million for deaths occurring after 1992 or gifts made after 1992. Instead, the new law reinstates the top estate and gift tax rate of 53 percent on taxable transfers between $2.5 million and $3 million, and 55 percent on taxable transfers over $3 million.

Executive-Compensation Limit

The new law establishes a general limit of $1 million per year per executive on the deductions that publicly held companies can take for executive compensation. The limit applies for purposes of the regular income tax and the alternative minimum tax.

Estimated Taxes

The estimated-tax payments required of high-income individuals, S corporations, partners, and sole proprietors are simplified beginning in 1994. If a taxpayer's prior-year adjusted gross income (AGI) exceeded $150,000, those filing individual tax returns will be able to avoid the penalty on underpayment of estimated taxes by making current estimated tax payments of at least 110 percent of the prior-year tax liability. Taxpayers with prior-year AGI of up to $150,000 can base their estimates on 100 percent of their prior-year liability. This new provision takes the place of one that required high-income individuals to pay at least 90 percent of their current-year tax liability.

Expanded Expensing

Small firms received a major benefit in the area of equipment purchases, according to accountant Mann. The act expands the small-business expense allowance by increasing

CHART: ALBERTO PACHECO

New Corporate Tax Rates



A new 35 percent bracket is effective Jan. 1, 1993. A corporation that operates on a fiscal year and falls into the 35 percent bracket is required to use a blended rate for a fiscal year that includes Jan. 1, 1993.

Taxable Income	Rate
Under $50,000	15%
Over $50,000 to $75,000	25%
Over $75,000 to $100,000	34%
Over $100,000 to $335,000	39%*
Over $335,000 to $10 million	34%
Over $10 million to $15 million	35%
Over $15 million to $18.3 million	38%
Over $18.3 million	35%

*A corporation with taxable income over $100,000 must increase its tax liability by either 5 percent of the excess or $11,750—whichever amount is lower. This increase in effect phases out the benefits of the 15 percent and the 25 percent tax rates for corporations with taxable income between $100,000 and $335,000 and results in a marginal rate of 39 percent.

The 34 percent rate begins phasing out when the corporate taxable income exceeds $15 million. A surtax results in a marginal rate of 38 percent for corporate income between $15 million and $18.3 million.

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to $17,500 from $10,000 the cost of qualifying property placed in service for the tax year. The purchase can be deducted as an expense during the year rather than depreciated over a longer recovery period. The new provision is effective for property placed in service in tax years beginning after Dec. 31, 1992.

Retirement Contributions

The law limits the amount of compensation that can be taken into account for purposes of calculating contributions or benefits under qualified pension or profit-sharing plans. The limit is indexed for inflation, and for 1993 it is $235,840.

Under the new law, the limit on compensation that can be used for calculating benefits under qualified retirement plans is reduced to $150,000 for plan years starting in 1994. The $150,000 limit will be indexed for inflation in $10,000 increments when cumulative annual inflation rates increase the compensation threshold by $10,000.

Gasoline-Tax Hike

The new law establishes a new tax of 4.3 cents per gallon on gasoline, diesel fuel, jet fuel, and special motor fuels used for highway transportation and in motorboats. The new tax is effective Oct. 1, 1993. The tax on gasoline and jet fuel used in commercial aviation received a two-year reprieve; airlines will not feel the effect of the higher rates until Oct. 1, 1995.

Extension Of Credits And Deductions

The new law temporarily extends a number of small-business credits and deductions that expired in 1992.

The deduction for employer-provided educational assistance is extended retroactively from July 1, 1992, through Dec. 31, 1994. Under this provision, an employer can provide employees with up to $5,250 of tuition a year free of tax. Reimbursements for job-related education aren't subject to the $5,250 ceiling.

The law extends the 20 percent credit for research and experimentation for 36 months for expenses paid or incurred from July 1, 1992, through June 30, 1995.

The 25 percent deduction for health-insurance expenses of self-employed individuals is retroactively extended from July 1, 1992, through Dec. 31, 1993.

The low-income-housing tax credit is permanently extended, effective after June 30, 1992 (when it expired). The provision offers investors credit against federal income taxes based on the cost of acquiring, rehabilitating, or constructing low-income housing.

Luxury Tax

The new law repeals the 10 percent luxury tax on furs, jewelry, boats, and airplanes effective for sales after 1992. Purchasers entitled to a refund may ask for one from the vendor, who can then obtain a refund from the Internal Revenue Service.

The 10 percent excise tax on automobiles above a certain price level remains, but the law indexes the threshold price for inflation. For 1993, the tax will be levied on the amount of a car's price above $32,000, up from $30,000.

Charitable Contributions

The new law requires more proof for donations to charities. Canceled checks will no longer be sufficient as proof of donations of $250 or more. Taxpayers who give to charities will have to maintain acknowledgements from the charity, school, or church.

Business Meals And Entertainment

The deduction for business meals and entertainment expenses has been reduced to 50 percent from 80 percent. In addition, dues paid to clubs and other social organizations can no longer be deducted. To make the provision less onerous for the restaurant industry, Congress included a provision that will permit restaurants to take a tax credit for payroll taxes paid on employees' tip income.

Moving Expenses

The law also eliminates a number of business-related moving expenses. Starting in 1994, deductions will be allowed for only the reasonable costs of moving household goods and personal items and the costs of traveling in connection with a move. This would include lodging expenses while en route from the previous location to the new one. Formerly, deductions were permitted for certain expenses of job-related moves if the new job was at least 35 miles farther from the old home than was the old job. The new law increases the 35-mile test to 50 miles. Expenses for meals while in transit are no longer deductible as a business-related moving expense.

Passive Losses

Effective in 1994, eligible taxpayers will be able to offset rental losses against other income. Individuals eligible for the new rules are those who perform more than half of their personal services for, and are materially active (spending at least 750 hours) in, one or more real-estate trades or businesses.

Nonresidential Real Estate

The depreciation period for nonresidential real estate will be lengthened to 39 years from 31.5.

Intangible Assets

The new law allows certain acquired intangible assets to be amortized over a 15-year period. Some of the types of intangible property covered include goodwill and going-concern value; a company's work force, information base, know-how, customer lists, and supplier lists; licenses and permits; and franchises, trademarks, and trade names.

Among the intangible assets excluded from coverage are interests in land, certain computer software, and professional sports franchises.

The new rule applies to intangibles acquired after the law's enactment date of Aug. 10, 1993. NB

To order reprints of this article, see Page 77.

New Estate And Trust Income Tax Rates



The 1993 tax law establishes higher tax rates for taxable income from estates and trusts effective Jan. 1, 1993. Taxable income over $7,500 is taxed at the top marginal rate of 39.6 percent, compared with 28 percent previously.

Taxable Income	Former Rate	New Rate
From $0 to $1,500	15%	15%
Over $1,500 to $3,500	15%	28%
Over $3,500 to $3,750	15%	31%
Over $3,750 to $5,500	28%	31%
Over $5,500 to $7,500	28%	36%
Over $7,500 to $11,250	28%	39.6%
Over $11,250	31%	39.6%

CHART: ALBERTO PACHECO

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TAXATION

Too Few Good Enterprise Zones

Clinton's economic package sets up nine big ones and 95 smaller ones, but not enough, critics say, to have much impact.

By John S. DeMott

When he was governor of Arkansas, Bill Clinton embraced the urban enterprise zone concept with the gusto of a Razorback wide receiver going for the ball on a crisp Saturday afternoon. In all, 458 zones were set up in the state in the 1980s, a time when 2,714 additional zones were established by 34 other states and the District of Columbia.

Clinton pushed the concept when he became president and included 110 zones as part of the fiscal 1994 budget measure he proposed earlier this year. Zone advocates then eagerly awaited the proposal's federal tax incentives to augment the modest state benefits conferred on businesses when the zones were set up in the '80s. (See "Recasting Enterprise Zones," February.)

But the budget measure signed by Clinton on Aug. 10 calls for precious few bona fide federally assisted enterprise zones and has thus met a lot of criticism. While $3.5 billion would be allocated for the program, the bulk of the benefits would go to just nine "empowerment zones"—five in big cities, one in a smaller city, and three in rural areas.

The nine zones would have $2.32 billion in tax incentives available to them, roughly $1.6 billion in the form of wage credits to employers. For each $15,000 in wages paid to an enterprise-zone worker, for example, a company could take 20 percent, or $3,000, as a credit against income taxes.

In addition, the nine megazones would be eligible for $720 million in direct grants for social-services spending on child care, employee training, education, and security and crime prevention.

The rest of the $3.5 billion would go to a lower tier of 95 other areas called "enterprise communities"—65 in cities and 30 in rural areas. They would receive most of that amount in the form of a change in federal rules permitting tax-exempt bond financing to be used for nonmanufacturing as well as manufacturing businesses, a benefit also enjoyed by the nine "empowerment" zones.

The 95 "enterprise communities" would also share $280 million in social-service grants.

At least officially, the targets for federal assistance will be chosen by the U.S. Housing and Urban Development (HUD) and other agencies on a competitive basis, probably, though not necessarily, from among existing zones.



PHOTO: EDWARD OTTINOWSKI

Rep. Charles B. Rangel, *D-N.Y., wants enterprise zones for his district, which includes Harlem.*

The actual choosing of recipients is likely to be heavily influenced by politics. New York Democrat Charles B. Rangel, who has assertively represented Harlem in the U.S. House for a quarter century, helped fashion the final measure and, associates say, fully expects federal zone benefits to flow to his district.

Longtime observers of enterprise zones say the Clinton administration has come forth with some good ideas but is investing them in too few areas. Rangel told the Senate Small Business Committee as the legislation was taking shape: "You could take all these zones and put them in one congressional district."

Jack Kemp, secretary of housing and urban development during the Bush administration, calls the zone program a "tragedy, a hoax." Kemp has been a vigorous enterprise-zone booster for a dozen years.

It's not only the small number of zones that draws criticism. The wage-credit incentive, of all the incentives that could have been used, is perhaps the least effective for creating jobs, say critics, because it will likely go not only for new jobs brought into the zones but also for jobs already there.

Nearly all zone proponents would have preferred to see significant capital-gains tax breaks for investors in enterprise-zone businesses, if only on an experimental basis to gauge the impact on investment and new hires.

Yet critics do have a few good things to say about Clinton's zone program. Dick Cowden, executive director of the American Association of Enterprise Zones, in Washington, says it's the "first truly new piece of urban legislation in 15 years" and could help set a realistic national standard for defining a "distressed area" in both urban and rural areas and for determining how local, state, and federal agencies would interact in dealing with it.

Despite criticisms that the experiment is tepid, White House aides who have worked on enterprise zones maintain they are committed to making a federal version of the concept work. In doing so, they would be building on state and local groundwork. Advocates of zones cite a HUD report that such economic areas have created or at least preserved more than 663,885 jobs and have attracted $48 billion in investment. The concept has been endorsed over the years by the National Governors' Association, the Council of State Legislators, the U.S. Conference of Mayors, and the U.S. Chamber of Commerce.

Says Sen. Joseph I. Lieberman, D-Conn., a promoter of enterprise zones as a member of the Senate Small Business Committee: "Properly designed enterprise zones will help convince business to build and grow in poor neighborhoods. We have now got more than 10 years of experience with enterprise zones, and we know they work."

Rangel, typically, does not mince words. If the U.S. can help developing countries, he says, "God knows we can do it with our own." NB

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SPECIAL REPORT

The '94 Trucks

By Julie Candler



The '94 Trucks

This year's crop reflects a growing demand for comfort and style. Manufacturers are addressing safety concerns as well, making anti-lock brakes and air bags standard on many models.

AM GENERAL HUMMER



FORD BRONCO



Light, medium, and heavy trucks are selling at such a hot pace that they accounted for almost 40 percent of vehicle sales during the first six months of 1993. That is up from 36 percent during the same period last year.

Light trucks in particular have been posting strong sales figures. Pickups, sport utilities, and vans accounted for nearly 38 percent of all vehicles sold in the first six months of 1993. While medium and heavy trucks comprised just over 2 percent of total vehicle sales, that market share has been growing.

Orders for the largest trucks in 1992 reached 160,000, the highest level since 1978. In the first half of 1993, sales of such trucks soared 38.4 percent over the same period in 1992, according to the American Automobile Manufacturers Association.

The final figures for this year are likely to show vigorous growth in the Class 8 truck market—the biggest trucks, those with gross vehicle weight exceeding 33,000 pounds—says James Meil, manager of economic analysis for Eaton Corp., a Cleveland-based manufacturer of automotive components. He says the expected growth stems from the revitalization of U.S. manufacturing. "The transportation of manufactured goods," he says, "is responsible for more than 80 percent of total truck ton-miles."

"The truck business is better than the economy as a whole," says James L. Hebe, president and CEO of Freightliner Corp. He attributes truck manufacturing's good health to a decline in inflation and interest rates and to expansion in industrial production, exports, and construction, all of which have produced a 14 percent increase in tonnage trucked per mile from mid-1991 to the end of 1992.

Equally encouraging are analysts' predictions based on consumer reactions to the new trucks for 1994. According to the forecasts, 5.2 million to 6.2 million light trucks will be sold in 1994, compared with 4.9 million in 1992, the latest year for which complete figures are available.

Sales of medium and heavy trucks, which totaled 249,000 in 1992 and were up for the first six months of 1993 by more than 18,000 units over the same period in 1992, are expected to be steady in 1994.

Manufacturers are trying to meet buyers' demands that trucks—light trucks especially—be as comfortable as automobiles. Interiors of some new light trucks resemble sporty cars, and exteriors are more and more stylish. Suspensions of light trucks are softer, with more-rugged systems available for hard duty.

Developments in electronics are also playing a role in improving trucks. Com-

CHEVROLET S-10 SS



puter-based technology, for example, is making automatic transmissions cost-effective. Today, more than 25 percent of medium and heavy trucks have automatic transmissions, according to Jay Uler, a product planner for heavy-truck operations at Ford in Dearborn, Mich., and he says the trend is gaining momentum.

Federal regulations have had an impact

DODGE RAM 1500



on features. This year's light trucks have protective impact door beams and centered, high-mounted, rear brake lights.

Also, more manufacturers are voluntarily making anti-lock brakes standard.

To comply with stricter federal emission standards for diesels by Jan. 1, 1994, most manufacturers are adding electronic emission controls or catalytic converters.

In addition, most new trucks in every weight category are using the more environmentally friendly refrigerant R134A instead of freon in their air conditioners. Federal rules require that the use of freon be discontinued by Dec. 31, 1995.

Such improvements add to trucks' prices, of course. Expect price rises of 1 to 2 percent for 1994 domestic light trucks and 2 to 5 percent for domestic medium and heavy-duty trucks. Imports' prices could rise at higher rates.

Light-Duty Trucks

Here are innovations in light-duty trucks of Class 1 (up to 6,000 pounds gross vehicle weight, or GVW), Class 2 (6,001 to 10,000 pounds), and Class 3 (10,001 to 14,000 pounds). Prices have been provided when available:

AM General

The sturdy, four-wheel-drive Hummers of Desert Storm fame continue to inspire interest. The quieter, more comfortable commercial models are seeing action at construction sites. The recreational applications are obvious.

In July, AM General added a two-door utility vehicle with an entry-level price of $39,500 and a four-door Recruit Series soft-top with a base price of $43,950.

Chevrolet

The all-new compact S-series pickups are rolling out with two- and four-wheel-drive

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versions. The regular cab comes with a choice of a short or a long bed. The extended cab comes with only a short bed.

The redesigned S10 is 2.2 inches wider, seating three abreast comfortably. The exterior is aerodynamically rounded. A new, easy-riding bench seat is standard.

The standard 118-horsepower, 2.2-liter, four-cylinder engine is more powerful than the earlier S10's engine.

Optional 4.3-liter V-6 engines with 165 and 195 horsepower have been refined and made quieter for 1994. Rear-wheel anti-lock brakes are standard; four-wheel anti-lock brakes are standard with the 4.3-liter V-6. An optional chassis package is offered for haulers of heavy loads.



Dodge

The 1994 full-size Dodge Ram pickup is the company's first all-new version in 22 years. Its front grille is reminiscent of an oncoming big rig, and its cab is 4 inches longer than that of any other full-size pickup.

The Dodge Ram pickup comes in two-wheel- and four-wheel-drive models; its designations are the 1500 series (half-ton), the 2500 series (three-quarter-ton), and the dual-wheel 3500 series (1-ton). Buyers can choose among five engines and six transmissions.

In January, Dodge Ram will be available with an 8-liter V-10 Viper gasoline engine, which will be more powerful than the 5.9L Cummins turbodiesel still available in the new model.

There are also a base 3.9-liter V-6, a 5.2-liter V-8, and a Magnum 5.9-liter V-8.

Estimated pickup payloads range from 1,625 to 5,288 pounds, and a 19,000-pound gross combined vehicle weight rating (a calculation of gross weight plus towing capability) is possible.

A driver's-side air bag is standard on all models; four-wheel anti-lock brakes are standard on the 3500 model and optional on others.

A version with an extended cab is expected to be ready in mid-1994. The base model Ram includes a bench seat with a 40-20-40 split—essentially two bucket seats with a smaller seat wedged between them. The center console can be retracted or brought down for writing or using a laptop computer. Chrysler has announced a base price of $11,824.

The 1994 Dodge Ram full-size vans and wagons have a new grille and hood and an optional 5.9-liter V-8 engine.

Ford

Ford's full-size Bronco sport utility and a freshened F-series pickup get a standard driver's-side air bag.

The best-selling F-series pickups also get an optional 40-20-40 bench seat and remote-entry anti-theft systems for the new model year. A new Navistar-built turbocharged 7.3L diesel V-8 provides 190 horsepower for the full-size F-250 and F-350 pickups with single (as opposed to dual) rear-wheel drive.

Four-wheel anti-lock brakes are standard on Ford Econoline vans and Club Wagons and RV-series vans.

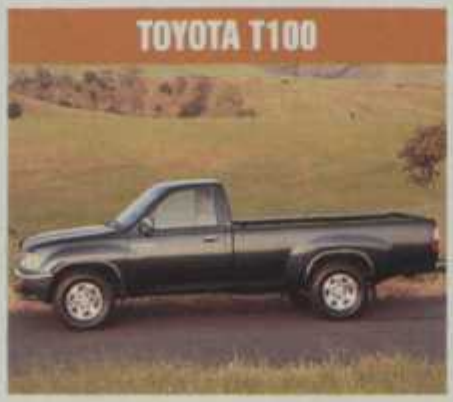


The compact Ranger introduces the 1994 Splash SuperCab with flair-side styling and four-wheel drive; a two-wheel-drive version will be offered later.

GMC

With slight variations, the new compact Sonoma is a twin of the Chevrolet S-series truck. (See the section above on Chevrolet.) A new optional 6.5-liter turbocharged diesel V-8 engine and transmission packages designed for good high-altitude performance were added for the two-door full-size Yukon sport utility and four-door Suburban.

A nonturbo 6.5-liter V-8, for light- and heavy-duty applications, is available on the full-size Rally and Vandura vans.





A driver's-side air bag has been added for all 1994 Safari midsize vans.

Isuzu

Anti-lock brakes become standard for top-of-the-line LS models and optional for other models of the 1994 Trooper sport utility vehicle.

Lincoln-Mercury

The upscale Villager minivan for 1994 will come with a driver's-side air bag as standard equipment.

Mazda

An all-new, larger, and more powerful 1994 B-Series line of compact pickups arrived this past summer. They are the Mazda B2300, B3000, and B4000. Mazda's engineers were heavily involved with Ford Motor Co. in the basic design, and the three models are cousins of the Ford Ranger.

The new Mazda pickups are being offered with four-wheel drive and a choice of three engines—a 2.3-liter four-cylinder, a 3.0-liter V-6, and a 4.0-liter V-6. Base, SE, and LE models come in regular and long-bed lengths, and a Cab Plus is available.

Mitsubishi

The Montero SR, Mitsubishi's upscale sport utility vehicle, has a more powerful 3.5-liter, 24-valve engine, producing 215 horsepower.

A driver's-side air bag and power windows and door locks become standard for both 1994 Montero sport utility vehicles.

Nissan

The mid-level Nissan XE is available with a special value package that includes

freon-free air conditioning. The four-wheel-drive XE King Cab model, the 4X4 XE-V-6, has a 3.5-liter V-6 engine.

All 1994 pickups and Pathfinder models have new instrument panels.

Nissan's Quest minivan is a twin to the Villager, available from Lincoln-Mercury. The Nissan Quest comes with a driver's-side air bag, and the GXE model has anti-lock brakes as standard equipment.

HINO FE2618



Toyota

Introduced in 1993, the T100 is the first midsize imported pickup. For 1994, the T100 has a new price-leader model with a 2.7-liter, four-cylinder engine that produces 152 horsepower, which is more than the standard V-6 in the 1993 version. A driver's-side air bag has been added.

The T100 is designed to have a smooth, quiet ride and to offer three-across seating. It carries a 1,550-pound payload. Currently the T100 is available only with a standard cab and long bed; an extended cab is expected later.

Half-ton models come in two- and four-wheel drive. There is a two-wheel-drive 1-ton model.

Rear-wheel anti-lock brakes are standard on all models. The manual-transmission T100 achieves 15 miles per gallon in the city and 21 mpg on the highway. Its base price, not yet announced for 1994, was $13,998 at a 1993 introduction.

Toyota's Previa minivan has had a driver's-side air bag and now comes with a passenger's-side air bag as well.

Medium And Heavy-Duty Trucks

New trucks and features in Class 4 (14,001 to 16,000 pounds GVW), Class 5 (to 19,500 pounds), Class 6 (to 26,000 pounds), Class 7 (to 33,000 pounds), and Class 8 (33,001 pounds and up) include the following:

Ford

A lighter-weight and improved sleeper cab was introduced for 1994 "to enhance the AeroMax image as a premium line-haul tractor," says Jeff Kahn, marketing-programs manager for Ford's heavy-truck operations. The top-of-the-line 60-inch Penthouse and AeroBullet sleepers have an innerspring mattress, space for an optional refrigerator, an optional 12-volt accessory power outlet, and improved ventilation, storage, and lighting.

Freightliner

Four-channel Rockwell-WABCO anti-lock brakes are available for about $1,250 in 1994 Class 8 trucks. The safety system will be standard starting with 1995 Class 8 trucks. The new, midlength, conventional FL 106 is a maneuverable tractor for short-distance delivery or an economical truck for contractors or refuse haulers. It has an 8.5-liter, four-cylinder Detroit Diesel Series 50 engine.

A wide range of cab lengths is offered for the new line of cab-over-engine trucks and tractors, designated FLB models. Five flat-roof versions range from 63 to 110 inches, and two raised-roof editions are 100 and 110 inches. The models reduce engine tunnel size to provide more leg room and better access to the sleeper.

KENWORTH AEROCAB



A new Sleeperplus for the 110-inch FLB cab-over boasts space and storage rarely seen in a flat-roof cab-over-engine truck, with 59.5 inches of stand-up room behind the driver's seat.

The new Classic XL, a premium, stretched, long-nose conventional truck with an ample 132 inches from the bumper to the back of the cab, is the longest conventional on the road.

A 48-inch raised-roof Sleepercab was introduced for the FLD 112 conventional and the big FLD 120 conventional. Its ceiling starts at 79 inches above the seats to provide plenty of standing room.

MACK CL



INTERNATIONAL 9600 AERO



Four new all-wheel-drive trucks are the firm's first for on- or off-road Class 7 and Class 8 applications.

Hino

In the past year, Hino has introduced three new Class 6 diesels—the FD2218, the FD2218LP, and the FE2618. All are powered by the new Hino 180-horsepower turbocharged, intercooled, six-cylinder HO6C engine.

The company also introduced two new Class 7 diesel models to meet the needs of the 30,000-pound-GVW user. Both the new FF3018 and the FF3020 are powered by Hino's HO6C diesel engine, with 200 horsepower available for the FF3020.

The Class 7s are suited for wrecker, stakebed, or construction applications or for transporting refuse or products such as beverages, fuel, and automotive parts.

In addition, Hino introduced three new Class 7 diesels for those using vehicles of 32,900 pounds GVW and of 55,000 pounds gross combined vehicle weight. The new SG3320, SG3323, and SG5523, with wider-bodied cabs, are all powered by the new Hino HO6C engine with 200 or 225 horsepower.

The SG5523 offers payload capacity and performance in a tractor configuration suited for hauling flatbed or refrigerated trailers or conventional trailers for transporting products such as beverages or furniture.

Kenworth

A new cab-sleeper package, the T600 AEROCAB, adds safety and comfort features to Kenworth's recently introduced T600B Class 8 truck.

The lighter, more aerodynamic T600B also uses less fuel than last year's model. A noise-reduction package makes the cab quieter, and an air-bag suspension system

cushions the ride. The removable sleeper has optional "Daylite Doors" cut lower than the usual window line.

Homey features include 7 feet of headroom, two fully reclining seats, doors rather than nets on cabinets, a deep closet for long coats, a fold-up desk for paperwork or meals, and an optional package

PETERBILT UNIBILT



that provides a padded space with an antenna hookup and outlets for a television and a refrigerator (neither appliance included).

Mack

New engines improve fuel economy and performance on Mack's Class 8 trucks. The new in-line, six-cylinder, turbocharged E7-300 (300 horsepower) and E7-325 (325 horsepower) have V-MAC electronic controls. Two larger E-7 engines have 427 and 450 horsepower without added weight.

The EC-190 engine with 190 horsepower and EC-220 with 220 horsepower are now standard on Mack's Mid-Liner trucks. They feature electronic fuel injection and up to 8 percent improvement in fuel economy.

Mack has become the first truck manufacturer to offer factory-installed vinyl striping. The appliques look like paint-ons but are removable and less expensive.

The company has introduced 24-hour roadside service for customers for up to a year after purchase. Owners may call 1-800-866-1177 for help.

Navistar

Three new sleeper cabs are being introduced in the International 9000 series: a 48-inch, a 60-inch, and a 60-inch high rise with overhead storage.

A new International 9600 Aero introduced in February is an aerodynamic, set-forward, front-axle cab-over that combines maneuverability and fuel-saving aerodynamics.

Navistar introduced four new engines in July. The company says the T444E V-8 with electronic fuel injection is the first fully electronic midrange diesel in the industry.

Other new engines are in-line six-cylinder models, each with a variety of



horsepower ratings. They are the DT 466 for medium and heavy trucks; a DT 408 for medium-duty use; and a turbocharged 530 V-8 for medium to heavy use.

Navistar introduced a 24-hour Fleet Charge Emergency Breakdown Service. It lets a participating customer call a toll-free number for emergency service and get instant credit and billing service.

Peterbilt

A new Unibilt Cab Sleeper System offers the flexibility of a separately mounted, removable sleeper box and the comfort of an integral unit. It is an option on most Peterbilt conventionals and comes in 36-inch, 48-inch, and 60-inch sizes.

The proprietary Unibilt system consists of a cab and a sleeper joined to form a single stout structural unit. Peterbilt says supporting mounts minimize pitch-

UD TRUCKS' UD1400



ing motion and improve the ride. A dual air suspension-shock absorber system filters out vibrations and noise. Frame-mounted-exhaust options further reduce noise and vibration.

UD Trucks

The UD1400, with a gross vehicle weight of 14,050 pounds, is UD Trucks' first

FORD AEROMAX



entry in the Class 4 market. With gross payload capacities of up to 8,900 pounds, the new truck's applications include refrigerated transport, air freight and expedited delivery, light construction, landscaping, and towing and recovery operations.

The aerodynamic cab provides quiet

WESTERN STAR 4964F



operation and increased fuel economy. Among the UD1400's amenities is integral power steering. Four-speed overdrive automatic transmission is optional. The power comes from a six-cylinder, 135-horsepower turbocharged Nissan Diesel TD42T.

Volvo GM

Nameplates from Volvo GM Heavy Truck Corp. include Volvo GM and WHITEGMC.

New interiors for WHITEGMC trucks feature an ergonomically designed standard seat or an optional premium seat that returns to a preferred height when the truck is started. Other conveniences are armrests, door panels, headliners, durable upholstery, and an optional, three-compartment, over-the-bunk storage unit.

A luxury edition features a one-piece front headliner with four-compartment storage above the sun visor.

WHITEGMC's Integral Sleeper Aero tractors have roomier bunk areas with increased headroom, as well as padded cabinetry and more optional storage.

A 24-hour-a-day technical center is being made available to buyers of Volvo GM, WHITEGMC, and the manufacturer's other trucks. Owners can call 1-800-52-VOLVO, or 1-800-528-6586, for assistance.

Western Star

Two new interior packages, in cloth or vinyl, were introduced with the company's 66-inch sleeper, which includes a shelf for a television and a 30-inch-high writing desk that has storage compartments beneath.

All Western Star trucks are now powered by Caterpillar's 3406 engine. A new Detroit Diesel engine is expected to be added soon. NB



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INSURANCE

Big Price Tags For Little Lies

When some cheat on claims, all pay—in higher premiums; a new industry group is targeting such fraud.

By John S. DeMott



ILLUSTRATION: BILL COULTER

From innocent fudging to outright lies, cheating on insurance claims is widespread, costing insurers—and, ultimately, policyholders such as small companies—large sums in higher premiums. There are no figures on insurance fraud overall, but there are estimates for some industry segments. In the property/casualty field, for example, Sean Mooney, chief economist at the Insurance Information Institute, says it has been conservatively figured that one of every 10 claims is fraudulent in some respect.

In workers' compensation, phony claims have driven up premiums nationally an estimated 10 percent, says Chris Campos, senior partner of the Campos & Stratis accounting firm, in Teaneck, N.J. The firm evaluates large insurance claims on behalf of insurers.

Another type of cheating on workers' comp occurs when employers misclassify themselves to understate the riskiness of their work—calling themselves general contractors when they're really roofers, for example—to avoid paying higher workers' comp premiums.

Such fraud only adds to the upward pressure on premiums and, in its way, is almost as damaging as the destructive storms that caused $23 billion in claims in 1992 alone. Insurers are now restricting some coastal coverage, and premiums may start heading up. (See "Business Insurance Will Cost You More," June.)

WE'RE FIGHTING FOR UNIVERSAL HEALTH COVERAGE AT A COST SMALL BUSINESS CAN LIVE WITH, TOO. WE'RE FIGHTING TO CREATE COMPETITION AMONG HEALTH CARE PROVIDERS. AND WE'RE FIGHTING TO MAKE HEALTH CARE 100% TAX DEDUCTIBLE FOR ALL BUSINESSES.

While insurance executives resist labeling ordinary insurance buyers as common criminals, insurance professionals say millions do inflate, exaggerate, and even lie to get money from their insurance companies or to get lower rates.

It can be as "innocent" as what is called "soft fraud," which occurs when a parent, for example, lies about the garaging address of a daughter's car to avoid paying the higher premium for coverage in a riskier location. Or it can be the "hard stuff," such as arson or staged accidents.

To catch cheaters, the New Jersey Insurance Department parked empty buses on busy roads, arranged to have cars bump into them, then videotaped "passengers" who appeared from nowhere to board the buses and then claim they had been hurt in the "accidents."

Why is fraud happening?

Adrian Tocklin, executive vice president of Continental Insurance, in New York, says it's partly the nature of the insurance product. She says: "If I go out and I spend $1,000 on a new television set, I've got it. But when I spend $1,000 on traditional liability insurance and nothing happens—there's no accident—well, I've spent that money, and I didn't get anything back . . . and they're going to want something back."

Campos says it's the lure of the quick buck: "They're looking to make money, whether it's on workers' comp, or an auto claim, or a slip and fall—you name it."

Despite long-standing efforts by the insurance industry and state governments to expose chicanery, insurance fraud is seen as an epidemic and has led to formation earlier this year of the Coalition Against Insurance Fraud. The group is co-chaired by Stephen Brobeck, executive director of the Consumer Federation of America, in Washington, D.C., and Tocklin of Continental.

The coalition's 17 chartering organizations include Brobeck's consumer group, seven large insurance carriers, and several associations representing government officials, among them the National Association of Insurance Commissioners.

With an initial annual budget of about $500,000, the coalition's mission is to emphasize that if policyholders cheat, they drive up insurance costs for everyone.

One of the coalition's planned tactics, along the lines of investigatory reports on "60 Minutes" or "Prime Time Live," is to have ordinary policyholders pose as customers with medical or auto-repair problems. The results would be secretly filmed and then offered to local television stations for broadcast. Eventually, the group will press for federal anti-fraud legislation that could result in the suspension of licenses of physicians and lawyers who participate in insurance fraud.

Dennis Jay, the coalition's executive director, who helped form insurance-industry and consumer groups as communications vice president of the National Association of Professional Insurance Agents, in Virginia, says, "We are going after insurance fraud wherever it occurs, from whatever source." That also means going up against fly-by-night and untoward insurers who refuse to divulge information to the public, Jay says.

The group also intends to go after anyone who takes improper advantage after disasters such as hurricanes and floods. Hurricane Andrew, for example, produced what Florida insurance investigators are calling a cesspool of fraud—from the adjuster accused of stealing $326,178 from an insurer to the woman who said Andrew's rain ruined her rugs, which had already been damaged.

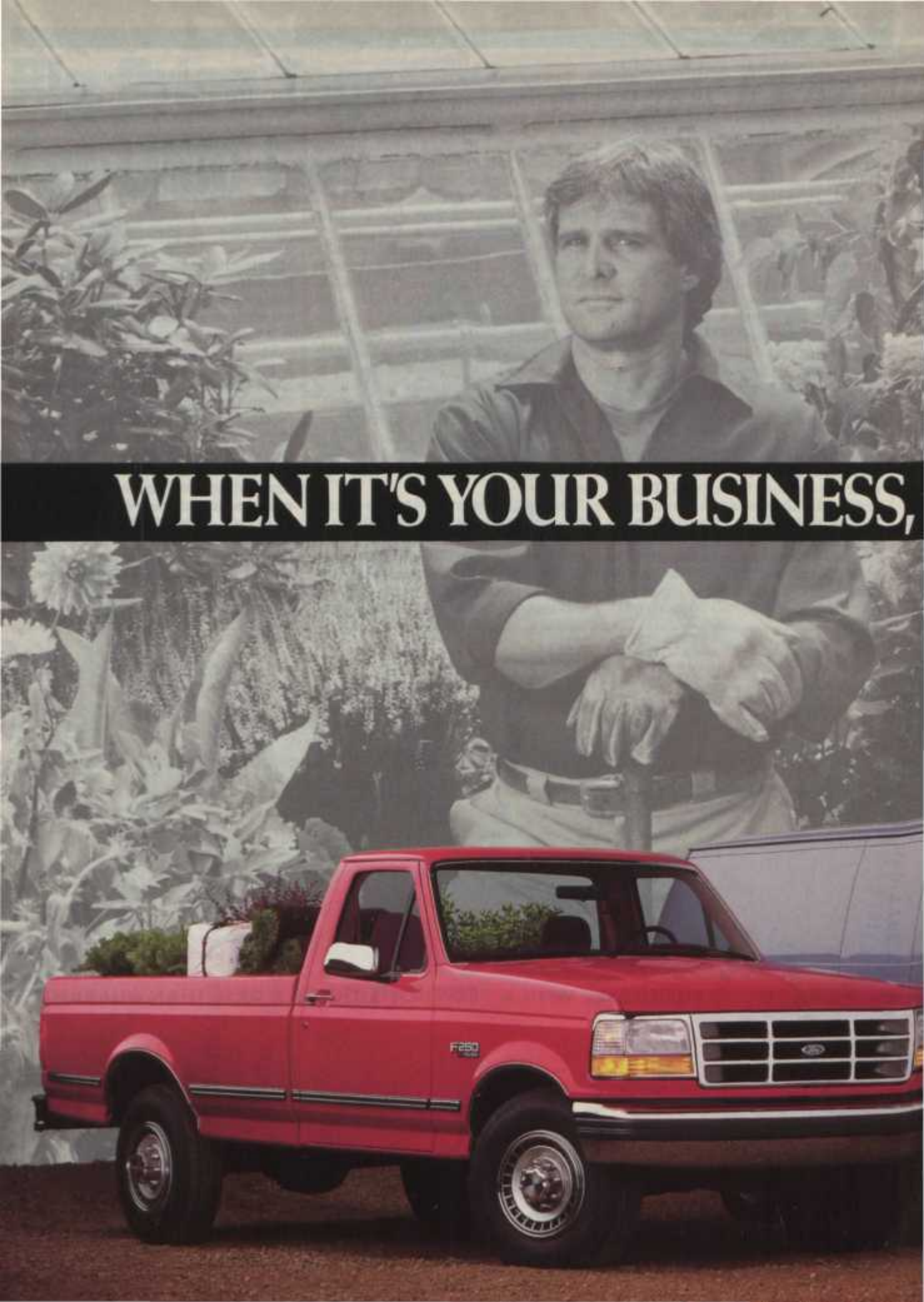
Brobeck estimates that if all kinds of insurance fraud could be cut by $5 billion a year, the typical American household would save $60 annually in premiums for auto and homeowners' insurance. Small businesses could save even more. NB

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Small-Business Computing

Elegant portables for those on the go; the new world of words; accounting by Windows.

By Albert G. Holzinger and Ripley Hotch

PORTABLE COMPUTERS

Subnotebooks With Substance



Three subnotebooks of note: *The OmniBook 300, from Hewlett-Packard; the Epson ActionNote 4000; and the ThinkPad 500, from IBM.*

In the 11 years since Compaq Computer Corp. introduced the first portable computer—a 28-pound armful featuring Intel's antique 8088 processor, 128KB RAM, and a 320KB hard drive—on-the-go executives have been searching for the holy grail of mobile PCs: a small, featherweight machine with a lightning-fast processor, capacious RAM and permanent storage, a bright and crisp display, a full-size keyboard, daylong battery life, and the ability to share data quickly and easily with desktop PCs—all at an affordable price. Because no such machine exists, business people have been forced to accept something less than ideal.

The number and degree of performance compromises are minimal, however, in subnotebook computers released by several manufacturers over the past few months. We tested three of this new breed, and although we found minor faults in each, we recommend them highly:

OmniBook 300

Hewlett-Packard Co.'s OmniBook 300 is a groundbreaking machine. At 1.4 by 11.1 by 6.4 inches and 2.9 pounds, the OmniBook is small and light enough to carry in an attache case. Yet the OmniBook sports a full-size, intelligently arranged keyboard that won't appreciably slow down touch-typists with big hands. An innovative mouse pops out of the right side of the case, which is fine for right-handers but a bust for southpaws.

The OmniBook is adequately powered by a 20Mhz 386SXLV processor and comes with standard 2MB RAM (expandable to 8MB). Storage is implemented through a 40MB hard drive or a 10MB flash memory card—an add-in card that can store up to 10MB of data. (Both the 40MB and 10MB storage capacities are effectively doubled by software shipped with the machine.) The display—9 inches from corner to corner—is large enough, but it lacks back lighting and can be difficult to read where lighting is poor.

Hewlett-Packard has bundled into read-only memory (ROM) a full suite of software: Windows, DOS, and Microsoft's popular word-processing and spreadsheet programs, Word for Windows and Excel. ROM-based programs load almost instantly, do not consume permanent storage space, and lengthen battery life. But if you do not like the ROM programs included, you won't want to buy the OmniBook: Loading other software would overtax the hard drive or flash card.

The OmniBook's battery outperformed any other we've tried, providing more than nine hours of life on the flash-card model we tested. (If you choose the hard-drive model, expect about five hours between recharges.) The OmniBook also runs on four AA alkaline batteries, a godsend on the road.

The OmniBook is not equipped with an external 3.5-inch floppy drive (not produced by Hewlett-Packard), which makes program and file loading a pain. A drive is available, however, for $199 direct from PacRim Systems Inc. (1-800-722-7461).

The OmniBook lists for $1,950 with the 40MB hard drive and $2,375 with the 10MB flash card, but it sells for somewhat less at retail and mail-order outlets.

ThinkPad 500

IBM has become a leader in the portable-computer marketplace lately, and the company's new subnotebook offering, the ThinkPad 500, shows why. At 1.6 by 10.1 by 7.2 inches and 3.8 pounds, the ThinkPad is about the same size as the OmniBook and is a pound heavier. The ThinkPad's keyboard is a bit smaller but is still OK for touch-typists, and its mouse, which looks like a pencil eraser in the center of the keyboard, is easy and even fun to use.

The ThinkPad features a lightning-fast 486SLC2 processor that operates at up to 50Mhz. A base unit includes 4MB RAM (expandable to 12MB) and an 85MB hard drive. (A 170MB drive is available.) At 7.4 inches from corner to corner, its display is smaller than the OmniBook's, but the IBM screen is back-lit and crystal-clear. The ThinkPad features sophisticated power-management systems that yield about four hours of battery life. Unlike any computer in this class that we've seen, the ThinkPad contains an integrated AC plug so you don't have to lug around a separate battery charger.

The ThinkPad is shipped with an external floppy drive and DOS but not with application software. It sells for $1,999 with the 85MB drive and $2,499 with the 170MB model, direct from IBM. Call 1-800-426-2968.

ActionNote 4000

The Epson ActionNote 4000 is similar to the ThinkPad 500, though it is not quite as technologically refined. It's 1.5 by 10 by 7.6 inches and 3.85 pounds, almost the same size and weight as the ThinkPad. The keyboards and displays are also of similar size and high quality. The Epson features a miniature track ball built in the upper right hand corner of the case. We found its performance a bit loose and at times had difficulty locating the cursor while running Windows applications. We found the track ball's buttons stiff—though they might operate more easily

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once they are broken in—and operation would be challenging for left-handers.

The ActionNote is powered by a snappy 33Mhz 486SLC microprocessor. It comes with 4MB RAM (expandable to 8MB) and 80MB hard drive with DOS and Windows but no applications preloaded. (A 120MB drive is available.) An external 3.5-inch floppy drive comes with the base unit.

The ActionNote battery provided only two to three hours of life, but it recharged in a little over an hour using the relatively compact charger provided. The ActionNote lists for $1,949 with the standard-size hard drive, and the 120MB model lists for $2,169 at Epson dealers.

All three subnotebooks provide elegant though not yet perfect solutions to typical problems encountered by computer users on the go.

You're unlikely to go wrong with any of these, but you might want to check out all three to see which best matches your preferences and needs. ■

MANAGING

Customer Surveys With Ease

Listen to your customers, say the teachers of modern management theory. How, ask small-business owners with limited resources. Apian Software, a small software company in Menlo Park, Calif., has a plausible answer: a $249 program called **Survey Pro Standard Edition.**

Survey Pro makes it fast and easy to produce highly professional survey forms, enter results, and generate a wide variety of reports. The program is powerful, easy to use, flexible—it permits entry of up to 150 questions—and runs on almost any PC. Call 1-800-237-4565.

Program Simplifies Employee Evaluations

Many managers do not like to do employee evaluations or give feedback on performance. Yet it is critical to the effective operation of a company that a manager be clear about an employee's mission, how the employee helps meet the company's goals, and how progress is measured.

ManagePro, a Windows product from Avantos Performance Systems, combines setting goals with managing and measuring employee progress. If you keep on top of it, the program is a first-rate management tool. You set specific, achievable goals, identify the people who contribute (and how), and set a time frame. You are prompted to set priorities, and the program keeps track of what should be done, where the slippages are, and who is responsible. (It may be you.) At evaluation time, you have a good record of how an employee has performed.

ManagePro is designed for companies with 100 to 2,000 employees, but it can also work well for smaller firms. It retails for $395 from dealers or from the company. Call 1-800-AVANTOS, or 1-800-282-6867. ■

PUBLICATIONS

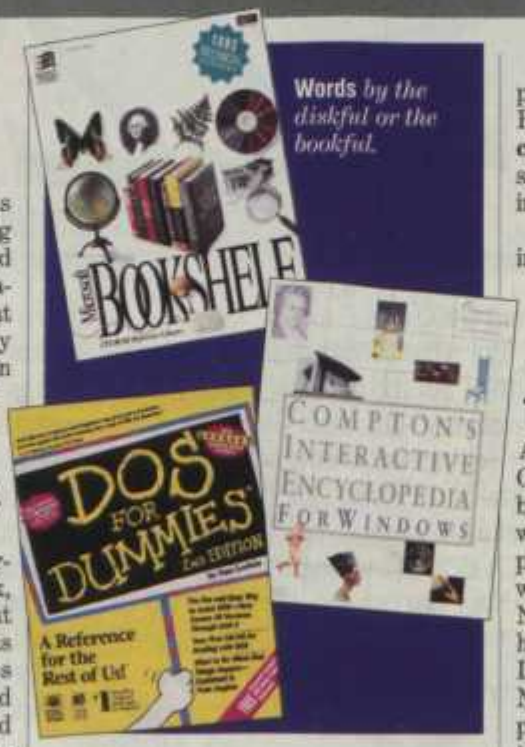
Business Books On Silver Platters

The shiny little compact disk that has become ubiquitous in audio is beginning to come into its own in storage and distribution of huge amounts of information. Dataquest, a research firm that tracks computer sales, forecasts that by the end of 1993, more than 2.7 million machines capable of using CD-ROM (read-only memory) will be installed. Now that the prices of CD-ROM players are dropping to $500 and below, having one in the office is no longer a major investment.

For the business office, an entire reference shelf can be included on one disk, saving a tremendous amount of space. But more important than the space savings is the way software allows you to gain access to the information in those books. Instead of laborious searching through a printed index, the user can type in terms, and the program will search very quickly through not just one book but a whole shelf's worth. Two recent titles show how much can be done:

■ **Microsoft Bookshelf** has been available for about five years, and its newest version ($195) includes seven major reference works: *The American Heritage Dictionary; Bartlett's Familiar Quotations; The Concise Columbia Encyclopedia; Roget's Thesaurus; Hammond World Atlas; The Concise Columbia Dictionary of Quotations;* and *The World Almanac and Book of Facts 1993.*

■ For business users, Allegro New Media of Fairfield, N.J., has released



Business Library, Vol. I, which contains 12 titles, including a business-communications handbook, an accounting handbook, a guide to business travel, a book on rules and procedures for meetings, and several books on marketing. The price is $59.95. Allegro New Media is working to get its titles into bookstores; you can call the firm at 1-800-424-1992.

The CD-ROM player is simple to use; it's just another drive that can be attached to almost any reasonably powerful PC, and only a small amount of program direction is transferred from the CD to your machine's hard drive. That directs the search processes on the CD itself.

You can find not only text but also pictures, and, with encyclopedia CD-ROMs like **Compton's Interactive Encyclopedia** or Microsoft's *Bookshelf,* you get sound, film clips, color maps, and other information.

The convenience, time, and space savings make CD-ROM an inevitable addition to office technology, and we'll have much more to say about it in the future.

For Dummies, A Key To Decoding DOS

A decade or so ago, when the Disk Operating System (DOS) software was born, hard-core computer enthusiasts were stereotyped as wearers of pocket protectors and thick-rimmed glasses who wrote mostly in ASCII and hexadecimal. Naturally, these aficionados felt right at home when running DOS commands like DEBUG and using tools like EDLIN. Now, however, ordinary people use computers to perform ordinary business tasks. Typically, these people are DOS dummies, and they are proud of it.

Many of today's users, however, must still grudgingly use some DOS commands to achieve basic PC tasks such as formatting diskettes or copying files. To help these suffering souls, Dan Gookin has produced the second edition of *DOS For Dummies, A Reference for the Rest of Us.*

Gookin's offbeat writing style and Rich Tennant's cartoons will make you laugh. Moreover, because the book will hold your attention, you are also guaranteed to learn enough to cope with DOS—but, mercifully, no more. *DOS For Dummies,* published by IDG Books Worldwide, is $16.95 at many bookstores. ■



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Peachtree Does Windows Right

Peachtree Accounting for Windows, Release 2, is a major improvement over the earlier version. Peachtree, which is going after the small-business market with this product, has squarely targeted rival Microsoft Profit by including many more features at a lower price. Both versions from Peachtree are particularly designed for the company with fewer than 25 employees.

After we wrote about Microsoft Profit in Small-Business Computing last March, Michael D. Queenan, one of our readers and the president of American Fluid Power, in Cincinnati, bought the program for his business and told us he found the program inappropriate for his wholesale-distribution company. The program did not allow enough withholding lines for employees and did not allow different categories of customers, he said. The new version of Peachtree Accounting for Windows does.

Queenan's experience suggests that you should take some care in evaluating an accounting product to make sure it fits your business. In addition, because Windows is relatively new as an operating environment, it has taken software developers a while to begin making the most of its benefits. The first Peachtree for Windows was also the first Windows accounting product, and it was simply an accounting program moved to a graphical interface—in which the screen presents icons, and operations are carried out with a mouse. It did not take real advantage of the interface, says Peachtree President Bill Goodhew. PAW 2 does. Just as Profit was a major advance in Windows accounting, PAW 2 is a big jump forward from Profit's first version.

Setup is relatively easy. PAW 2 offers a tour, a tutorial, plenty of help screens, and a nice on-screen, yellow-pad checklist of the steps you must take in setting up the system for a particular company. To speed the setup, there are sample charts of accounts for 13 different kinds of businesses. You can use batch posting (transactions are saved and then recorded all at once periodically) or real-time posting (transactions are recorded as they occur); you can choose the cash or accrual methods of accounting; and you can keep books open for as long as two years. Cumbersome month-end closing procedures, used in almost all accounting systems, are eliminated.

The opening screens are attractive and informative. If you are word-oriented, a menu of choices across the top lets you make the usual drop-down choices. Across the bottom are "file folders" of common tasks—general ledger, accounts receivable and payable, payroll—and any function can be reached from within another.

Because this is a Windows product, you can keep several functions open on the screen at once, and each will be kept updated; it's like having ledger pages stacked, flipping from one to another.



PHOTO: ©MICHAEL A. SCHWARZ

President and CEO *Bill Goodhew of Peachtree Software, Inc., with the latest release of Peachtree Accounting for Windows.*

All sorts of routine accounting tasks are automated, and you can look at transactions with customers, employees, and vendors in many different ways.

Reports are extensive, and you can create any number of your own. PAW 2 has a number of ways to view data, helps you understand your cash flow and collection problems, and even helps you write dunning letters when they're needed. You can import your logo from another program and attach it to reports, invoices, and other printed material.

The program is so rich that we can't begin to list all of its really helpful features; the few faults we found are likely to be corrected in the next version.

The program's very fine, concise "accounting primer" has only one small fault: It uses the traditional accounting terms of debits and credits (as does the manual), but in the program, when starting balances are entered, the entries must be positives and negatives, so that the starting balance zeros out. Though designed to help the nonaccountant, this is in fact confusing. You will probably need help from an accountant to get started.

All in all, Peachtree Accounting for Windows, Release 2, is a mature product at an impressively low price (list $169, but discounted at many retail and mail-order outlets). The program is a terrific value.

Can Managing Money Be Fun?

Keeping track of personal finances is, let's face it, only marginally more enjoyable than visiting the dentist. It can also be tough to enter the personal-finance segment of the software market, a segment dominated by leaders such as Intuit's Quicken, Microsoft Money, and Meca's Managing Your Money.

But Computer Associates, a software giant, is giving a mighty try, teaming up with the masters of personal finance—the Kiplinger publishing organization—to create **Kiplinger's CA-Simply Money for Windows.** In a bold marketing move, Computer Associates has given away the first million copies of the program.

It has also decided to make the program something like a video game—in other words, fun—says Marc Sokol, the company's vice president for product strategy. The icons are colorful and often cute. (A pig represents a savings account.) You can choose icons from a large selection to personalize your own accounts.

Windows requires program writers to pay much attention to details in order to produce a program that operates creatively and consistently. The creators of CA-Simply Money seem to have succeeded on both counts. For example, if you want a report of checkbook transactions, you point to the checkbook icon and drag it over the report icon. Presto, a report (and a very good one, too).

For once, the claim that a program is easy to use has some justification. That is always a relative claim in any computer program, but CA-Simply Money is about as easy to use as any financial program we have seen.

One very nice feature is the Adviser. Most of the material is straight from Kiplinger's, and it's good. You get a little pop-up adviser screen whenever you do anything that the program has advice on. Setting up a checking account? The Adviser tells you what to look for.

CA-Simply Money has included them all, from checkbook management to investment advice (with available on-line stock reports) to budgeting. If you have never used a computer financial program, CA-Simply Money is a good choice; if you have been using a computer financial program, CA-Simply Money may tempt you away from your old favorite. NB

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LEGISLATION

Congress Eyes A Piece Of The Rock

Companies that mine on federal land favor mining-law changes—but not ones that add more regulations and steep royalties.

By David Warner

Royal Gold, Inc., a mine-exploration company headquartered in Denver, will spend about $1.5 million over the next year developing gold mines for larger mining companies to excavate, mostly on federal land in the West. If a new 8 percent gross royalty and new regulations included in legislation supported by Sen. Dale Bumpers, D-Ark., and Rep. Nick Joe Rahall, D-W.Va., are approved, the resulting increases in development costs could force Royal Gold to move overseas, the company says.

"If Bumpers-Rahall were actually passed—and I never like to overstate the case—we most likely would work elsewhere ... outside the U.S.," says Stanley Dempsey, chief executive officer of Royal Gold, which has five workers but keeps dozens of others employed through subcontractors.

Analysts for the financial-services company of Salomon Brothers, in New York, agree that the Bumpers-Rahall bill could drive mining companies abroad. "Proposed changes in the law would make it increasingly expensive and cumbersome for mining companies to explore for and develop minerals on federal land," a Salomon Brothers analysis says. "We believe passage of these provisions would accelerate and intensify the companies' shift toward exploring and developing projects elsewhere—a trend that already is well under way."

Hard-rock mining companies pump about $32 billion into the nation's economy and directly employ more than 120,000 workers, according to the U.S. Bureau of Mines. In addition, hard-rock minerals, such as gold, silver, copper, and zinc, are used in a host of products, including electronic equipment.

Mining firms pay millions of dollars yearly in state and federal income taxes. The Arizona copper industry, for example, paid $117 million in state and local taxes in 1992, according to the Western Economic Analysis Center, in Marana, Ariz.

States that could suffer the greatest losses in revenue as a result of the bill are Arizona and 11 other Western states: Alaska, California, Colorado, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming. Most of the nation's hard-rock minerals are found in these states, and most of the land in these states is owned by the federal government. Nearly 82 percent of Nevada, for example, is federally owned.

The Bumpers-Rahall bill would overhaul the General Mining Law of 1872, which encourages development of hard-rock minerals on public lands. The mining industry and the U.S. Chamber of Commerce believe changes are needed in the 1872 law, but they say the Bumpers-Rahall bill, expected to be voted on by the House this fall, goes too far.

The 1872 law allows miners to stake a claim to federal lands containing minerals by paying the federal government a $100 holding fee or performing $100 worth of mining work on the land a year. Claimants may take title to the property five years after staking a claim, when they must prove the minerals are recoverable, file a patent, and pay the federal government $2.50 to $5 an acre, depending on the value of the minerals.

The Bumpers-Rahall legislation would impose a new federal permit process, a new federal reclamation standard, an 8 percent gross royalty on income from finished hard-rock mining products, and higher claim fees. It would also end public land sales to mining companies.

Proponents of the Bumpers-Rahall bill say an 8 percent royalty is warranted because the U.S. taxpayers need a fair return from public lands and that mining companies have been "subsidized" far too long.

The mining industry and the U.S. Chamber of Commerce maintain that a bill passed by the Senate earlier this year is a more reasonable approach. That legislation, sponsored by Sen. Larry E. Craig, R-Idaho, would impose a royalty of 2 percent of the net value of minerals—the minerals' value minus costs of extracting, developing, exploring, and processing—and would require companies to pay fair market value for land they buy.

The Clinton administration had yet to take a position on the Bumpers-Rahall or Craig bills in early September, but the president did propose a 12.5 percent royalty on hard-rock mining in the budget package he offered in March.

The royalty provision was dropped after pressure from Western lawmakers.



PHOTO: JAMES COOK

Mining-company CEO *Stanley Dempsey says proposed royalties could force his firm to "work elsewhere."*

According to various economic studies, the 8 percent gross royalty proposed by Bumpers and Rahall would likely be economically infeasible for many mining companies. In addition, a 1992 study done by the accounting firm of Coopers & Lybrand and the law firm of Morrison & Foerster for the American Mining Congress concluded that nearly 50,000 mining jobs would be lost by the year 2000 as a result of the Bumpers-Rahall royalty provision. Indirect job losses could range from 150,000 to 250,000, and the mining industry would suffer an earnings loss of

about $1.2 billion, according to the study.

Proponents of the measure say the 8 percent royalty would raise $400 million for the U.S. government. The Coopers & Lybrand study, however, projected that the federal government would actually lose more than $420 million in revenue as a result of the bill. In addition, Coopers & Lybrand said the U.S. economy would lose about $6 billion in output.

The Craig bill would result in the loss of about 5,000 mining jobs and would raise about $50 million for the U.S. Treasury, according to the measure's supporters.

As for mine regulations, mining companies on both public and private lands must already comply—as many industries must—with a host of federal laws and regulations, including the Clean Air Act, the Clean Water Act, the National Environmental Policy Act, the Federal Land Policy and Management Act, the Safe Drinking Water Act, the Solid Waste Disposal Act, the Toxic Substances Control Act, and the Endangered Species Act, as well as state and local regulations.

Says Dennis Wheeler, chief executive officer for Coeur d'Alene Mines, in Coeur d'Alene, Idaho, which employs 400 workers in its gold and silver mines in Idaho, Nevada, and Alaska: "We are subject to all of the major environmental laws. This [bill] is a sham. These people are not credible . . . because they are trying to tell the American public that there is no existing framework for regulation of this industry, and that is flat-out false."

Wheeler cites Coeur d'Alene Mines' mining-development project in Kensington, Alaska, 40 miles north of Juneau, as an example of the regulation of mining on federal land. Since 1987, the company has obtained 58 permits and spent $7 million to begin extracting gold from the site. "That's hardly evidence of the lack of an environmental permitting framework for the mining industry," he says.

But the Bumpers-Rahall bill would add several layers of regulations, including new permit requirements, reclamation standards, and land-suitability criteria that may be hard to meet even for large mining companies.

Among other permitting provisions, mining companies would have to obtain approval from the federal government for each new or modified operating plan at each phase of an operation, including geophysical exploration, drilling exploration, drilling development, mine development, and mine production.

A plan would not be approved if the applicant or any affiliate was found to be violating any environmental law on any site. Approved operations would be suspended even if an unaffiliated owner of land adjacent to a mine site was in violation of surface-management requirements. Existing mines would have to be reapproved.

"I don't see new mines being developed under the Bumpers-Rahall bill at all because of [all the] risks" it creates.

—Dennis Wheeler, CEO, Coeur d'Alene Mines

The reclamation provisions in the bill would require mining firms to restore lands to their pre-mining uses and "prevent any contamination or toxification" of soils. (Many minerals, by nature, "contaminate" or are "toxic" to soil.) Companies would have to post bonds to assure reclamation and to cover the "maximum level of financial exposure" from mining activities. Reclamation, says one provision, must be contemporaneous with mining without regard to cost. Under the Craig bill, the government would make payments to the states for mine reclamation.

The mining industry says that because of the unique features of every mine site, reclamation standards should be set by the states with federal cooperation. It opposes a federal one-size-fits-all approach.

The federal government would also have to determine the suitability of mining on public lands, 65 percent of which are already off-limits to mining, by deciding whether a site could be economically and technologically reclaimed and whether mining activities would substantially impair water quality or quantity; adversely affect historic properties; cause loss or damage to riparian areas; impair productivity of the land; or adversely affect endangered species. Such determinations would require lengthy, site-specific environmental-impact statements.

Most troubling to the mining industry, however, is the legislation's mechanisms for enabling private citizens or groups to enforce the measure's provisions or challenge a permit through lawsuits. "I don't see new mines being developed under the Bumpers-Rahall bill at all because of [all the] risks" it creates, Wheeler says. "We would have to think long and hard" about starting new mines.

Given what the mining industry sees as draconian provisions and an "outrageous" royalty in the Bumpers-Rahall bill, many mining companies say the measure is simply a way to discourage mining in the United States. NB

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Family Business

Gems from a reporter's notebook; alternatives to offering employees stock; a playboy son's worrisome ways.

OBSERVATIONS

Bits Of Business Wisdom Worth Savoring

By Sharon Nelton



PHOTO: T. MICHAEL KEZA

Frequently, when I'm writing a story or a column, something special that a family-business owner has told me has to be left out. Either it doesn't fit in with the article, or there is no room to include it. But often I savor these ideas, remarks, and anecdotes with the hope of finding an opportunity to share them. Here are some of my favorites:

■ Peter Fellowes, executive vice president of Fellowes Manufacturing Co., a maker of office-organization products, based in Itasca, Ill., on the subject of seizing opportunities to improve the company:

"I think my emotional involvement, stemming from the family involvement with the business, assists me in finding energy and vision and imagination to take those opportunities because it means a great deal to me *how* we do business. I'm more concerned with the way in which we do our business than *that* we do business. I don't want success at any price. None of us in the family does.

"We're very proud of the ethical manner in which we do our business and the way our people act."

■ G.G. "Bill" Fernandez, CEO, Ferco Tech Corp., an aircraft engine parts company in Franklin, Ohio, on honesty:

"Integrity is something that has to work all the way around, 360 degrees. It's not just that I'm going to be honest here and dishonest there. It applies to your dealings with your employees, with your suppliers, with your customers, with your bank, everybody that you deal with."

■ Alfred W. "Bill" Jones III, president of The Sea Island Co., which owns The Cloister, a Mobil five-star resort in Sea Island, Ga., on family business:

"I think the biggest secret is 'family first.' A lot of people take their work home with them, and the business is first. In our opinion here, that's not the way to go about it. If the family is not happy with what's going on with the business, then we shouldn't be in this business."

■ Suzanne K. Sykes, president and CEO of Marpac Industries, Inc., a manufacturer of plastic products based in Kingston, N.Y., on why Marpac emphasizes quality:

"I think that it is essentially a family pride issue. You don't want to be ashamed of anything your business does any more than you do of anything your children do. I feel very strongly about the fact that this [business] is our identity. It is our legacy as much as our children are our legacy."

Finally, when I was interviewing the 1993 Small Business Person of the Year, William D. Engler Jr., chief executive officer of Kaytee Products, Inc., a Chilton, Wis., manufacturer of food for small animals, he showed me scrapbooks depicting the 127-year-old company's history. One of the scrapbooks contained clips from company newspapers his grandfather, William N. Knauf, used to put out when the company included a feed business, a general store, and a dairy.

Here are some bits of wisdom from one of Knauf's little newspapers in 1925:

■ "Learn something today, even if it has to be just one new word for your vocabulary."

■ "He [who] is afraid of doing too much always does little."

■ And my personal favorite: "It is better to be short of cash than short of character." ■

PLANNING

Examine Why Key Employees Want Stock Ownership

By Craig E. Aronoff and John L. Ward

"I just can't seem to make up my mind on whether or not to offer key employees stock ownership opportunities," says the CEO of a family business. "In fact, my flip-flopping on this may have done some harm. Sometimes I hint that it might be possible someday. Then I have to deal with misunderstandings or the consequences of my own misleading statements."

Few employees would turn down ownership of their company's stock if it were given to them. Because stock ownership makes a company more attractive to good employees and helps draw top performance, many business owners would like to make stock in their companies available to their key employees.

But the counterarguments are powerful and emotional as well.

The debate rages energetically among advisers to family businesses: "Yes, it ties key employees to the company and its future." "No, it dilutes ownership, is expensive to buy back, and causes lots of inconveniences and troublesome decisions, such as how much to give, who should receive it, and how to value it." What to do?

In deciding whether or not to provide stock, family-business owners often overlook a critical question: Why do we believe



PHOTO: T. MICHAEL KEZA

John L. Ward, left, is the Ralph Marotta Professor of Private Enterprise at Loyola University Chicago. Craig E. Aronoff holds the Dinos Chair of Private Enterprise at Kennesaw State College in Marietta, Ga. Both are family-business consultants.

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— President Ronald Reagan

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our people want stock in the first place?

We have found several motivations on the part of employees, and for each one we suggest appropriate substitutes for stock:

Financial Reward

Key employees may wish to build their personal wealth, in which case a deferred-compensation contract, equity in another of the business-owning family's investments (for example, real estate or a leasing company), and phantom stock are possible alternatives. In phantom stock, employees are entitled to appreciation of phantom stock shares, just as in real stock, but no ownership in the company is conveyed.

If an employee wishes to share in the company's growth in value, the business owner may offer phantom stock or a profit-sharing bonus plan.

If providing for future security is the goal, an employment contract or retirement plan may be appropriate.

Personal Pride

Some employees want the prestige of being an owner, a partner, or a principal. In some instances, employees find that such prestige enables them to be more effective on behalf of the company. Sometimes titles can be designed to convey the same meaning. For example, "partner" could mean partner in profits rather than partner in equity.

Sometimes employees see stock ownership as a symbol of special recognition from owners or as a reward for long and loyal service, but owners can also confer special recognition by bestowing important titles, publicly praising employees, or developing special personal relationships with them.

Again, employment contracts and retirement plans may be used to recognize exemplary service.

Sign Of Trust And Commitment

Key employees may hope that having stock will provide them access to "inside," privileged information usually reserved for owners or give them an opportunity to participate in key decisions. Such desires may be a signal that the business owner is being too secretive, which may result in injury to employee performance or to building trust.

The business owner can try to be more open with employees, share more information with them, and involve them in decision making.

Some employees see stock ownership as a test of the owners' commitment to the future. Sharing stock, they feel, is a strong sign that the owners are harmonious and intend to keep the company independent for some time.

The company's owners can attend to these needs, however, by communicating their commitment to business continuity



ILLUSTRATION: DAVID CHOW

and their plans to achieve it and by nurturing employees' trust in the company's leadership.

Most business owners focus on motivations of financial reward and personal pride when considering granting stock, but for the most part, these needs can be addressed well in other ways, far less expensively.

Often we find that employees test owners' trust in them and commitment to the future by expressing desire for ownership.

Business owners need to face those needs as explicitly as possible, consciously giving attention to how much trust they have in key employees and clarifying their own commitment to future independent ownership.

If neither trust nor commitment exists, stock ownership would eventually lose its importance anyway.

Given the alternatives, we wonder why employee stock ownership remains an issue. Some business owners believe that no one is motivated unless he or she is risking his or her own capital, just as the business owner does. More often, ironically, business owners feel somewhat unworthy of their success. To compensate, they think about giving stock to others. They underestimate how uniquely valuable their entrepreneurial talents and contributions are.

Only 3 to 5 percent of small family businesses offer stock to their employees. There are good reasons why more don't do so: It is an expensive gift; the effect of sharing ownership is not clear; and sharing ownership presents legal and administrative complications.

For some, sharing stock ownership may be an important part of the company's culture.

But more often than not, stock is shared for the wrong reasons, when other vehicles or just good management will do. ■

MARK YOUR CALENDAR

Oct. 14, Dallas

"The Next-Generation Perspective: It's My Turn," a meeting of the Dallas/Fort Worth Family Business Forum, looks at how to prepare the younger generation for business management and leadership. For information on the forum, contact Nancy Upton, Institute for Family Business, Baylor University, P.O. Box 98011, Waco, Texas 76798; (817) 755-2265.

Oct. 15, Arnold, Md.

"Planning for the Continuity of Business" is a seminar addressing such topics as business valuations, tax and financial considerations, and buy-sell agreements. To be repeated Nov. 20 in Largo, Md., and Dec. 1 in Rockville, Md. For more information, contact Dale Snyder Associates, 672 Old Mill Road, Suite 316, Millersville, Md. 21108; (410) 553-6101 or 1-800-231-6101.

Oct. 19, Phoenix

"Business-Succession and Retirement Planning for Family/Privately Owned Businesses" runs two hours. Call Glenn K. DeMarr, Cigna Individual Financial Services; (602) 956-6330, Ext. 116.

Nov. 11, Ann Arbor, Mich.

"Family Business Succession Planning: The Human Aspects" is a seminar for family-business owners and managers. Contact The Newport Group, 455 E. Eisenhower Parkway, Suite 210, Ann Arbor, Mich. 48108; (313) 769-8000.

Jan. 21-28, Ocho Rios, Jamaica

"The Jamaica Family Business Seminar" is co-sponsored by the Goshen College Family Business Program and the Delaware Valley Family Business Center. Call Henry Landes at 1-800-296-3832.

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CASE STUDY

Grooming A Playboy



ILLUSTRATION: DAVID CHEN

George Kelly saw an opportunity and jumped on it in 1948. With the help of his wife, Enid, he built a small hardware business serving the postwar aircraft industry into a successful regional fastenings distributor.

The couple's two sons, Joe and Ken, both joined Kelly & Co. following college in the mid-1970s. Neither had a clearly defined role in the company, and both developed active, expensive lifestyles, Ken as an avid sportsman, Joe as a drug user. Both took extensive vacations—one, physical; the other, mental—resulting in excessive time off.

Meanwhile, George, Enid, and their longtime operations manager, Randy Burton, continued to expand the company. A shock came two years ago when George and Enid discovered that Joe had "borrowed" $4,000 from the company every month for 10 months to support his drug habit. They acted quickly and with finality. Joe was out of the business.

The father admonished Ken to pay close attention to how he ran the business. Ken worked hard, increasing sales and improving delivery productivity. But he always operated under George's cautious eyes. For George's 70th birthday, Ken jokingly had new business cards prepared for George with dictator as the title.

George was proud of Ken's progress, and when Ken turned 36 last year, George promoted him to executive vice president. Ken's new esteem and dedication have been short-lived, however; last winter, he spent six out of 15 weeks skiing at a variety of resorts.

George is upset that his "playboy" son has not demonstrated a stronger commitment to the company. Ken argues that it was a traditionally slow period for the business.

Randy Burton and George are both close to retirement. Without a strong management team, George and Enid are growing increasingly concerned about the business.

"Is there anything I can do to groom Ken quickly for the leadership role?" George asks. "Or should Enid and I sell the company?"

Consider Two Questions

The family must address two main questions:

- Is George willing to back out of daily operations so that Ken can move into a position of control?
- Will Ken step forward, with the requisite fire in his belly, to take this company and build it for the future?

The Kellys should begin with a family retreat, moderated by an impartial outsider. George and Enid should first describe the business's history and major accomplishments. Ken can then talk about his dreams and aspirations. Is running the business a cherished goal, or is there another avenue he wants to take?



PHOTO: SWENSON—BLACK STAR

Harrison W. Hine, senior consultant at Management Action Programs, Inc., in Bellevue, Wash.

The three can then begin discussing development of a five-year plan based on the company's history and its current situation.

The retreat may evolve into strategic planning for the business. Key managers should be made part of the planning process to ensure their support of Ken as the company leader. Action plans and timetables should address each of the issues. The family should follow up and deal with future ownership issues before it is too late.

If Ken stays with the business, he cannot be expected to learn by osmosis. He needs sufficient responsibility and experience to assume leadership. George should create a board of directors that includes CEOs from other companies.

Having an experienced and concerned group of people providing general oversight and helping Ken run Kelly & Co. should give George the peace of mind he seeks.

If George and Ken do not agree to work together to transfer power to Ken, then Ken should explore other options, and George and Enid should arrange for the sale of the company.

Ken Must Prove Himself

From an estate and family-planning point of view, George and Enid's decision to sell or keep the company depends on how confident they can be with Ken's ability to succeed George.

They would do well to have Randy Burton oversee Ken's development as successor. Ken should prove he is up to the task of leadership by postponing extensive ski vacations for a while.

Once George has confidence in Ken's commitment—and if the business is retained—George and Enid must then take steps to transfer ownership and protect themselves and their family. As they plan the distribution of their estate, it would surely be a mistake to cut out Joe. Today's problem child could well become tomorrow's leader.



Richard Donahugh, principal of Capital Analysts, Inc., in Corona Del Mar, Calif.

In trust planning, George and Enid must first protect each other, then the children. Ken should receive voting control of the business after George's death, or sooner. Joe should be provided for in a way that would cover certain health and maintenance areas, as well as create an option that would allow him to come back into the business if he gets off drugs and if he could make a meaningful contribution. (This decision could be made by the trustee or by outside parties selected by George and Enid.)

Regarding grandchildren, a trust could also be generation-skipping, allowing assets to remain in trust for Joe's and Ken's children.

At George's death, an optional buy-sell agreement between Joe and Ken would guarantee the child active in the business (if the other is inactive) the first right to purchase and the inactive child a market for his stock.

This approach lets Ken prove himself to his parents, keeps the business going after his parents die, and avoids cutting Joe out of the family and its assets.

This series presents actual family-business dilemmas, commented on by members of the Family Firm Institute and edited by Mike Cohn, president of The Cohn Financial Group, Inc., in Phoenix. Identities are changed to protect family privacy. The authors' opinions do not necessarily reflect the views of the institute. **Copyright © by the Family Firm Institute, Brookline, Mass.**

Franchising SPECIAL GUIDE

You Can Overcome Financing Hurdles

A creative approach can make the difference for a would-be franchisee.

By Meg Whittemore

The biggest obstacle faced by most potential franchisees in starting their businesses is, as always, finding start-up capital. President Clinton has ordered regulatory changes designed to reduce certain bank-loan paperwork and encourage more loans for small businesses, but it can still be difficult for business newcomers to borrow money to buy a franchise.

One of the basic problems for banks considering a franchise loan is that "there is never enough collateral," says Dennis Jones, president and CEO of Hinsdale Bank & Trust Co., in Hinsdale, Ill. "People go into franchising because of the relatively low cost to get involved, and they usually use up a large portion of their net worth—or borrowing power—in order to buy the franchise," he says.



PHOTO: GRANT BARTHOLOMEW

Merry Maids franchisees *Curt and Candy Holstein do not recommend selling the family homestead and using a credit card—as they did—to start a business.*

"Franchise loans are unsecured cash-flow loans," says Thomas Mulry, vice president of National Westminster Bank USA, in New York City. Typically, he says, the money involved isn't enough to attract a bank unless the loan is for a restaurant or hotel franchise in the range of $500,000 to $1.5 million.

The market for money is expected to remain tight for the foreseeable future, at least among traditional banks, but some smaller banks are eyeing franchise financing as a growth market. "I think one of the last bastions of users of commercial banks' money is going to be the small-business owner, many of whom are franchisees," Jones says. "So there is hope."

(For suggestions on approaching your banker, see "Visiting A Loan Officer? Be Prepared," on Page 60.)

If traditional bank loans are unavailable to you, there are alternatives, including personal savings, loans from family and friends, and money obtained through U.S. Small Business Administration (SBA) programs. In addition, franchisors often prove instrumental in helping potential franchisees obtain start-up capital from banks and other sources.

Sometimes, a novel approach becomes a critical factor in a franchisee's success. Following are examples of how franchisees and franchisors are creatively meeting the challenges of financing:

Selling The Farm

Curt and Candy Holstein broke the rules of investing in a business when, in 1987, they bought two Riverside, Calif., franchises of Merry Maids, a home-cleaning company based in Omaha, Neb. The first franchise cost $50,000. "We financed the purchase of the first franchise by selling our house and 80-acre family farm in Nebraska," Curt says. "We sold our heritage, and that was tough." The three-generation farm dated back to the turn of the century.

Candy, a schoolteacher, stayed in Nebraska to finish the school year while Curt moved to Riverside to start the business. When Candy joined him in California later that year, they considered an adjoining territory for a second franchise. "I felt that we needed the second area to accomplish the growth that we wanted, but I didn't have enough cash in the bank, and the franchisor didn't provide financing then," Curt says.

So the Holsteins bought the second franchise territory for $20,000 and put it on their credit card. "It is kind of embarrassing to have done it that way," Curt says. "An astute financial person would not have done that, but it was quick and easy cash for me."

The second territory allowed the Holsteins to increase annual sales to $10,000 the following year from $2,000 the first year, but Curt doesn't encourage people to follow his high-risk form of financing. "Let me put it to you this way," he says. "It was really dumb, and everybody

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advised against it."

At the time, he says, it was the only way to get the cash he needed for expansion, and his unorthodox strategy paid off. In 1992, sales for the two franchises totaled just under $600,000.

The Holsteins have no regrets, but they would not recommend selling the family homestead and using a credit card to finance a start-up. Instead, Curt and Candy suggest a conservative and thorough approach. The couple did do extensive research before launching their franchises, drawing up a formal business plan. "You should understand your numbers before going in," Curt says. That means knowing how long it will take to break even and start making money.

Curt suggests that potential franchisees first approach a bank for financing, then try family, friends, and the SBA.

A final thought: "If you haven't put together some kind of *pro forma* game plan," Curt says, "then don't get into franchising, period."



Minimize debt, *Dianna Nordyke, president of the Craters & Freighters packaging and shipping company, tells franchisees.*

Limiting Debt

A common-sense approach helps Dianna Nordyke's franchisees keep their initial investment and debt manageable while they support themselves and their families during the start-up phase. Nordyke is founder of Craters & Freighters, a packaging and shipping company based in Aurora, Calif. It specializes in large, odd-sized objects. "I don't like to see my franchisees invest more money than they have to," says Nordyke, who started the company in 1990.

A Craters & Freighters franchise, which is typically located in rented warehouse space, costs $30,000 to open if all of the equipment is bought new. Nordyke tries to help her franchisees pay less by requiring them to do a household inventory. "A lot of the equipment they need in the warehouse, such as power saws, drills, tool boxes, and saw horses, is stuff they already have in their garages," she says. "There is no sense in going out and buying brand-new things when they have perfectly usable things at home."

The same goes for office furniture, calculators, computers, and other equipment. "We are very good at counseling our franchisees against buying that $2,000 telephone system when all they need is an inexpensive phone with two lines," she says.

New franchisees fill out a start-up cost sheet, marking off items they already have, and Nordyke goes over the franchisee's borrowing power, available cash, and items of value that can be sold. "Then I walk them through a loan proposal, and I encourage them to set up a line of credit for what they need," she says.

Once the new franchisees are on board, a system of cash flow helps them meet expenses without incurring new debt. Most of Craters & Freighters' customers pay before an item is shipped, and the company's vendor carriers are paid on a 30-day schedule. That leaves the franchisee with a monthly cash balance. "It helps cash-flow the business when the franchisee has been paid for the shipment 30 days before the carrier bill is due," Nordyke says.

The idea is to help the franchisee avoid incurring overwhelming debt.

Nordyke's company is showing growth. Gross sales for her eight franchisees last year totaled $1.1 million, up from $544,000 the year before.

Franchisor Sponsorship

When money is tight, franchisors can play a crucial role in helping franchisees find capital. "In today's economy, franchisors should provide some kind of assistance to their franchisees," says David Kilby, vice president of franchise development for Cousins Submarines, Inc.

Cousins sells submarine sandwiches at 66 locations, mainly in the Midwest. The

company, based in Menomonee Falls, Wis., provides new franchisees with a range of services. Wherever a franchise is proposed, Kilby fosters ties with local bankers who are certified as preferred lenders under the U.S. Small Business Administration's 7(a) loan program. Kilby meets with the bankers to introduce them to the company's franchise concept, its support systems, and its plans for growth.

"It is an educational process," he says, "because most bankers don't understand franchising, and they don't know about Cousins." The company then tries to bring a franchise buyer and a banker together. Cousins' network of banking relationships acts "as a third-party endorsement of Cousins" when the franchisee goes in for a loan, Kilby says.

Cousins also grooms managers as potential franchisees. Candidates who have managed two years may qualify. The franchise fee is reduced from $10,000 to $5,000, and the sponsored manager is assisted in leasing equipment, choosing a site, selecting a developer, negotiating a lease, and assessing contracts.

Under the program, Gail Burzynski, who had worked as a manager in Cousins' corporate office for 14 years, bought a 5-year-old franchise in Oconomowoc, Wis., with her brother David Niedfeldt for $120,000 in 1990. Buying an existing restaurant meant they didn't have to pay construction costs or buy new equipment. Had it been purchased new, the franchise would have cost $320,000.

Burzynski invested $35,000 from her company profit sharing, and she and her brother borrowed the rest under a loan guaranteed by the SBA. They drew up a comprehensive business plan and made a presentation to a bank, which approved a seven-year loan with an interest rate of 7.75 percent.

Kilby, who established the sponsorship program for Cousins, says seven corporate office managers have become franchisees, and six applications are pending. He describes it as "taking trained and skilled operations people and moving them into a different business discipline." Burzynski says the program "was a major factor in my decision to own a franchise."



PHOTO: S.JOHN R. FULTON JR.

Personal contacts *helped Barbara Kurth and Michael V. Newman finance their New Horizons Computer Learning Center franchise.*

Private Stock Offering

Michael V. Newman and Barbara Kurth used a combination of creativity and personal contacts to finance their New Horizons Computer Learning Center franchise in Dallas last year.

New Horizons, based in Santa Ana, Calif., trains business professionals in a variety of computer software programs in the classroom and in the customer's place of work. The cost of opening a four-classroom facility ranges from $250,000 to $300,000, depending on the location.

"When we first started looking at this, we knew we would have to start raising some funding somewhere," Newman says. Banks, however, turned them down because of lack of collateral.

The partners regrouped, drew up a 200-page business plan, and formed a corporation, tapping personal savings and seven investors, including relatives, friends, and former business associates. Newman and Kurth raised $240,000.

The offering, Newman says, was set up

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to meet two objectives: "Investors in a small company want to have an exit strategy, a way to cash out, and they want to get some returns on their investment right away." With that in mind, the investments were divided. One part was treated as a loan, the rest as stock. For a $25,000 initial investment, $20,000, or 80 percent, is a loan to the company; the remaining $5,000 is used to buy stock at par value.

The loan carries an interest rate of 15 percent, and investors are paid interest quarterly. "Of course, they do have more risk with us than with a certificate of deposit or mutual fund, so we compensate them for that," Newman says.

The stock, purchased at 10 cents a share, "is where they will really make their money," he says. Investors can sell their stock to the company after five years at twice the book value. Newman says he expects the stock to be worth "about $2 a share at the end of two years."

In its first year of operation, Newman and Kurth's franchise has had $1 million in sales. For franchisees struggling with raising capital, Newman recommends a private stock offering like theirs. "We did not have to give up control," he says, "and the investors get immediate returns." NB

To order reprints of this article, see Page 77.

Visiting A Loan Officer? Be Prepared

By Paul DeCeglie

If you are frustrated by your banker's attitude toward your small-business loan application, you are not alone. Bankers surveyed by *Nation's Business* voiced similar concerns about working with small-business loan applicants.

"We find it significant that so many loan applicants disregard the perspective of banks," says Dennis Jones, president and CEO of Hinsdale Bank & Trust Co., in Hinsdale, Ill. "It's a common failure, particularly among prospective franchisees."

Lending officers say that the most common irritant is poor preparation. "Most just walk in, throw a franchise package in front of you, and say, 'What do you think?' They expect us to do the work," says Philip S. Inglee, president and CEO of Liberty National Bank, in Huntington Beach, Calif.

Bankers suggest that you do your homework. Loan officers want evidence that you have investigated the franchisor, researched the market, analyzed your personal financial condition, evaluated your ability to operate the business, and determined how you will succeed.

Says Inglee: "Come to us prepared. Draw up a personal financial statement, gather all available information on the franchise operation and its history, put together a business plan describing the business, your customers, and how long it will take to break even."



PHOTO: WOLF FINN HESTOFT—SABA

First, describe *the business, says banker Dennis Jones; talk about the loan later.*

Paul DeCeglie is a free-lance writer in Beverly Hills, Calif.

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Franchising SPECIAL GUIDE

J. Scott Wilfong, senior vice president of First National Bank of Maryland, in Baltimore, says: "When you come in with your plan, be ready to defend its details. We want to know that you've done the homework and that the information is based on your findings, not the franchisor's. We'll ask you to support your data and justify your conclusions. We'll grill you."

Be honest with your loan officer. "No pie in the sky," says Robin Wantland, senior vice president of Bank One Texas NA, in Dallas. "You are trying to build a relationship, and that should revolve around trust."

Wantland says you should talk to your banker about how you will establish your business, what niche you will fill, and the existing and potential competition. "I would also like to hear about your background, especially any experience or skills that might help convince us this is a good risk for the bank," he says.

Paul Brawner, senior vice president of Huntington National Bank, in Columbus, Ohio, says bankers "just don't hear informed discussions about the bank's relevant risks and how they've been mitigated by an applicant's research, experience, financial resources, or selection of franchisor."

He says it would be "quite impressive if you came in and laid out your deal, your financial needs, and the perceived risks, then demonstrated why the bank should participate and feel secure in its participation."

Bankers say that you can go a long way toward impressing them by demonstrating an understanding of the importance of financing and the ability to repay the loan. "Research various financing methods such as Small Business Administration loans, state-sponsored programs, and banking relationships established by the franchisor," Inglee urges. "Then discuss such alternatives with your banker. We don't generally get that level of sophistication."

Jones, the Hinsdale Bank & Trust

Tips You Can Bank On

■ Do your homework. Make sure the franchisor is legitimate. Talk to existing franchisees about problems, pitfalls, and franchisor support. Research the market to determine if the concept works.

■ Write a thorough business plan. Include personal financial statements, your business background, a marketing plan, and projections on the break-even point.

■ Shop around. Select a bank that has a relationship with you or the franchisor. Ask the loan officer how many loans the bank has made to businesses like yours over the past year. Ask other small-business owners in the area where they got their loans. See if the bank is involved in the Community Reinvestment Act program; it focuses on loans to small firms that promise to locate in the community.

■ Focus your presentation on the strengths of the franchisor, your equity investment, and your professional skills and experience. Point out that you are buying an established name, a marketing model, and managerial support.

■ Be honest. Share all of the information about your investment—both good and bad—with the lending officer. Bankers don't like surprises.

■ Don't overlook alternative sources of financing, including your personal savings, loans from family and friends, and money from state job-development programs. A loan officer might be impressed that you are not depending on the bank to assume all of the risk. ■

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CEO, says he is impressed with substance. "Good small-business bankers put most of their reliance on the potential franchisee and secondary reliance on the nature of the franchise and the longevity of the franchisor," he says. "I want to be sure that the operation has some depth, has marketing capability, and can provide the franchisee with adequate expertise, service, and support. If you expect to get the loan, you'll make me part of understanding the franchisor very early in the game."

Before sealing a deal, Jones wants to be assured that the business makes sense. "Focus on the strengths of the franchisor which will support your eventual success," he says. "Tell me what your business is about, describe your markets, your competition, your background, your potential. We'll talk about the loan later."

For help with preparing a business plan, call (202) 663-5111 to obtain a copy of *Steps to Small Business Financing*, published by the American Bankers Association. The cost is $5.

Or see "How To Write A Business Plan," in the February issue of *Nation's Business*. For a copy of the article, send a written request for reprint No. 8933 and a check for $1.99 to *Nation's Business*, Reprint Manager, 1615 H Street, N.W., Washington, D.C., 20062-2000, or call 1-800-692-4000.

Lending Sources

The following partial list of lending institutions that offer franchise financing is taken from *Franchise Opportunities Guide*, which is issued by the International Franchise Association. The guide is available for $15 plus shipping costs by calling 1-800-543-1038.

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Bank One—Columbus
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PHOTO: LOGAN ABRAMSON

Michael Nadeau *used a bank loan to purchase his Advantage Payroll Services franchise in Auburn, Maine, eight years ago. An in-depth business plan "was crucial to my success" with the bank, he says, "and still is."*

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CAPTEC Financial Group, Inc.
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Ann Arbor, Mich. 48108
(313) 994-5505

Comercia Bank
211 W. Fort St.
Detroit, Mich. 48275
(313) 222-3740

Commercial Bank of San Francisco
33 Pine St.
San Francisco, Calif. 94109
(415) 627-0303

Kanaly Trust Co.
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Houston, Texas 77027
(713) 626-9483

The Money Store Investment Corp.
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Sacramento, Calif. 95816
1-800-877-1722

SANWA Business Credit Corp.
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Chicago, Ill. 60606
1-800-331-5247

South Shore Bank of Chicago
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Chicago, Ill. 60649
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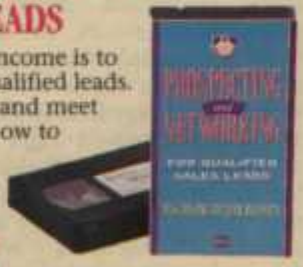


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MANAGING

Bureaucracy, Heal Thyself

The administration says it will go beyond basic TQM techniques and actually "reinvent" federal government.

By David Warner

Erskine Bowles, the new administrator of the U.S. Small Business Administration, tells a reporter that his first call that morning will be to a man in Detroit who got less than satisfactory service from an SBA field office.

"I'm going to call him back this morning, and I'm going to apologize," Bowles says. "I can't tell you that we're going to be able to provide this gentleman with what he needs, but he's darn well going to know that we want to be helpful if we can."

That customer-service attitude of Bowles, formerly an investment banker in Charlotte, N.C., is just part of the Clinton administration's quality-management effort to make the federal government more efficient, more effective, and more customer-friendly.

Total Quality Management, or TQM, is a program that combines customer satisfaction, operations measurement, trust, continuous improvement, and teamwork. On the basis of that definition, many business people who have dealt with federal agencies would say that government TQM is an oxymoron. Nevertheless, the Federal Quality Institute, part of the U.S. Office of Personnel Management, was formed in 1988 to help implement TQM throughout the government.

According to an October 1992 General Accounting Office (GAO) report, 68 percent of more than 2,200 federal civilian and Department of Defense installations responding to a GAO survey had some kind of TQM program.

The Internal Revenue Service center in Ogden, Utah, for example, used TQM to improve the processing, reviewing, correcting, and entering of tax returns. The center, which handled 26 million returns and issued $9 billion in refunds in fiscal 1991, had the lowest error rate that year among the IRS's 10 regional centers.

For its efforts, the Ogden IRS center saved more than $11 million over five years and won the 1992 Presidential Award for Quality, which is the equivalent of the Malcolm Baldrige National Quality Award for excellence in the private sector.

Although there have been other TQM successes within the federal government, many federal agencies are experiencing the same problems some businesses have faced in implementing TQM.

"The biggest difficulty is that there is a perception that [TQM] is something added to what is already being done, a program superimposed on top of what we already do to make what we do better," says Robert D. Gilbreath, a management consultant and president of Proudfoot Change Management, in Winter Park, Fla. The problem is that making a flawed program more efficient doesn't satisfy customers. "TQM may have you doing the wrong thing in a better way," he says.



PHOTO: T. MICHAEL KEZA

Customer service *is a core principle for the U.S. Small Business Administration, says Erskine Bowles, the agency's new chief.*

The Clinton administration says that it will go beyond the classic TQM approach of improving what is already there and will restructure, streamline, and, if necessary, eliminate programs. In the parlance of quality-management experts, it wants to "re-engineer" government. In the administration's words, it wants to "reinvent" government.

Although TQM and re-engineering share the goal of satisfying customers through quality goods or services, organizations reach that goal in different ways, Gilbreath says. TQM relies on continuous, incremental changes; re-engineering, he says, depends on quantum change or "discontinuous improvement."

Says Gilbreath: "Discontinuous improvement begins with the questions what and why. What are we doing, and why are we doing it?" He says the standard answers, such as "We've always done it that way," are not acceptable. "It's fairly ruthless in interrogating what exists and in demanding that it be justified."

The Clinton administration began its re-engineering efforts in earnest Sept. 7 when it announced 800 recommendations for making the federal government "work better and cost less." Among the recommendations, formulated during a six-month National Performance Review of all federal agencies:

- Reform the federal procurment process to allow agencies more freedom to make purchases under $100,000.
- Require all agencies to create customer-service programs, and give agencies more leeway to hire, fire, and promote federal workers.

The proposals of the task force, which was led by Vice President Al Gore, could cut federal spending by $108 billion and reduce the government work force by more than 250,000—most from management ranks—by 1998.

The U.S. Chamber of Commerce called the administration's reform efforts "an important first step." Lorraine Lavet, director of domestic policy for the business federation, said, "The federal government should be doing what the business community has done for the past 10 years—strive to increase productivity and effectiveness."

The federal performance review was modeled after a Texas program conducted in 1991 by the state comptroller's office. The Texas review came up with 961 recommendations for changes in state government with proposed savings of $5.2 billion. A second review earlier this year proposed $4.5 billion in savings through 460 recommendations. The Texas Legis-



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lature approved almost 70 percent of the recommendations, saving billions of dollars and avoiding tax increases in 1991 and 1993.

"There's a ton of bad things that government does that don't make sense," says John Sharp, the Texas comptroller.

Billy Hamilton, the deputy comptroller of Texas who helped oversee the state's review, is on loan to Washington as deputy project director of the federal review task force. According to Hamilton, "Our threshold question is: Do we need to do this? The second question is: Does it make sense the way it's being done?"

The federal review task force asked each agency to justify its programs and processes. Bowles, the SBA administrator, says his agency is looking at its programs to see how they are delivered and whether they are necessary.

"What we're trying to do is create a mind-set here that we're not building an empire at the SBA," Bowles says. "What we're doing is delivering a service to the customer. If a service that we currently perform can be performed better at Commerce, or better at Veterans, or better at Agriculture, or better at Interior, that's where it ought to be."

Re-engineering and TQM have been implemented with varying degrees of success in state and local governments. Almost 40 states have used some type of quality-management program, according to the National Governors' Association. Adopting the concepts in a bureaucracy the size of the federal government, however, could prove daunting. "The main reason things don't change is because some people have a vested interest in keeping them exactly as they are," Gilbreath says.

The biggest obstacle to changes proposed by the National Performance Review task force is likely to be Congress. "Unless the status quo is changed here on the Hill, the vice president is going to have difficulty pushing through Congress the kinds of reforms he wants," says Rep. Timothy J. Penny, D-Minn. He says congressional committee and subcommittee chairmen tend to claim ownership of every federal program under their jurisdiction and are loath to give up power.

Rep. Jim Nussle, R-Iowa, says Congress itself may require re-engineering, but he points out that four select congressional committees were eliminated this year and that the Joint Committee on the Organization of Congress is considering other changes. Also, Congress recently passed legislation requiring federal agencies to develop performance goals, measure progress, and report results to the president and Congress by the year 2000.

But more must be done, Nussle says. "Any part of a system, if it's not useful, should be or could be considered for elimination or transformation."

Penny and Nussle hope to sponsor a seminar on quality management for members of Congress and their staffs with W. Edwards Deming, a father of TQM who took the concept to Japan to help that country rebuild its manufacturing base after World War II.

Even if the Clinton administration's proposed re-engineering efforts are successful, however, the White House must also be restructured if all other changes are to succeed, says Itzhak Adizes, a management consultant.

Early in his term, Clinton did do some reorganization of the White House, eliminating some perks, calling for executive branch staff cuts, and reducing administrative costs. But those changes are largely cosmetic, according to management experts such as Adizes, whose Adizes Institute, in Santa Monica, Calif., has helped large and small companies and several foreign governments restructure through wholesale changes.

Adizes believes the White House is out of control, with too many people reporting to the president. "[Clinton] is being shoved and pushed and pulled in so many directions that he cannot focus on anything," he says. "The machinery of the White House must be restructured to enable the president to have enough time to really think about what his priorities are and to be able to project those priorities.

"If the White House machinery is out of control, how do you expect to control the governmental machinery, the executive branch [agencies]?"

Adizes suggests that the president appoint a chief operating officer—Gore—to run the executive branch. "Let the president deal with policy, direction, the macro changes needed to get society headed in the right direction," Adizes says.

Currently, Clinton is acting like a manager, reacting to issues and crises within the system as it exists, Gilbreath says, when what the country needs is a leader who can "enunciate and communicate the difference between where we are and where we could or should be."

Clinton will have a chance to change the way the federal government works now that the National Performance Review is completed. So far, the administration's stated goals and recommendations about quality management and re-engineering have struck the right note with those concerned about inefficiency, waste, and excessive growth of government. But it remains to be seen whether action will win out over rhetoric. NB



PHOTO: EDENNIS BRACK—BLACK STAR

Congress may require re-engineering, *says Rep. Jim Nussle, R-Iowa. "Any part of a system, if it's not useful, . . . could be considered for elimination or transformation."*

TQM Training Videos

The U.S. Chamber of Commerce's Quality Learning Services division has available training videos on quality management in government and on measuring quality in the public sector.

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LITIGATION

Service Without A Smile

You and your employees should know how to respond if you're served notice of a lawsuit.

By Anthony J. Mohr

When he received the certified letter notifying him of the lawsuit, the vice president of a Pennsylvania vocational school called the disgruntled customer immediately and offered to settle. The plaintiff seemed interested, and the executive thought he was off the hook.

Twenty days later, the educator learned otherwise. Because the school had missed the deadline for responding to the legal notice in writing, it forfeited its right to defend itself in a federal court. The plaintiff was then free to present his case unchallenged. The school spent $3,000 to $4,000 in legal fees to persuade a judge to set aside the default and let the company defend itself.

The vocational school executive could have avoided this problem had he understood the basic rules of serving papers, or giving notice of a suit. With about 20 million civil cases being filed in the nation's federal and state courts each year, it's important for companies and individuals to understand how to serve notice of a suit and how to respond when served.

The most economical way of serving notice is through first-class mail, which is now the norm in federal courts. The plaintiff simply sends a copy of the complaint to the defendant with a request to acknowledge receipt using an enclosed stamped, self-addressed envelope. "We told our lawyer to try it" in a suit against a vendor, says Stephen S. Dashew, co-owner of Beowulf Publishing Group, in Tucson, Ariz. "He did. The defendant acknowledged, and we saved time and money."

Many jurisdictions allow out-of-state defendants to be served by certified mail, in which a signed receipt is returned to the sender. If the defendant doesn't acknowledge a certified letter, the plaintiff can then have the notice served in person.

The stories of artful techniques of serving are numerous, of course, and they are discussed among legal scholars and law students. Defendants have been tagged by servers delivering flowers, talking their way into board meetings, even posing as exotic dancers sent to perform at office birthday parties.

Irving Botwinick, who runs Serving by Irving, a New York City process server, says, "In this business, you can legally lie to get to where you want to go as long as you don't break any laws."

Even professional servers encounter problems, however. The owner of Progressive Investigations Inc., in Columbus, Ohio, once tried to serve a kindergarten teacher; she kicked him and jabbed him with a pole.

It can be helpful to keep in mind these points about hand-delivery of legal papers:

- A party to the lawsuit cannot serve legal papers.
- Any adult who is not a party to a lawsuit is permitted to serve papers, but a plaintiff should think twice about who does it. Because serving papers can be tricky and sometimes risky, it's best to hire a professional process server. Sheriff's deputies and federal marshals can also serve papers, as they sometimes do in cases in which a person to be served may react violently.
- Amateur process servers often hand papers to company employees who are not authorized to accept them. Robert Barrows, a Minneapolis-St. Paul lawyer, lost a case because an employee falsely claimed she was authorized to receive legal papers. "The [state] Supreme Court said it was bad service," Barrows says.
- If all else fails, a court will order that a summons be published in a newspaper that circulates in the defendant's home city. That will suffice.



ILLUSTRATION: TROY THOMAS

How should your company respond if it is served? Make sure employees authorized to receive legal papers know what to do with them. Confusion can occur, which in turn can result in a default judgment against the company. If you receive legal papers, tell your company's attorney right away.

A defendant usually has between 20 and 30 days to answer a complaint. During this time, many states bar plaintiffs' attorneys from taking statements from company officers and employees, says Jack Millkey, an Atlanta litigator. This allows the company's defense team to get a jump on pretrial investigative work and plan strategy.

Unfortunately, businesses often sit on the complaints, calling their attorneys at the last minute, Millkey says.

Mark Jordan, a Seattle trial lawyer, recalls a case in which an employee who was authorized to receive legal papers did not know that Jordan's firm had been hired to represent the employee's company. The employee sent the complaint to another law firm.

Says Jordan: "They sat on it, and we barely beat the default." NB

Anthony J. Mohr is a Beverly Hills, Calif., lawyer specializing in business litigation.

Direct Line

Experts answer our readers' questions about starting and running their businesses.

By Meg Whittemore

PURCHASING

Barter For Bargains

I own a small company that offers business-to-business services. I am interested in learning more about bartering as a way to finance the purchase of several pieces of equipment. Where can I go for help?
P.D.C., Boise, Idaho

Barter is an exchange of goods or services without cash. For example, someone might trade bookkeeping skills for the services of a dentist.

Businesses barter a wide range of products or services, including rent, secretarial services, advertising, health benefits, office supplies, and tax preparation.

Barter exchanges act as clearinghouses, brokering transactions among members and charging commission. Currently, there are about 400 barter exchanges in the United States. One barter exchange, BX International, Inc., of Los Angeles, has more than 10,000 members linked by computer network throughout the United States and abroad.

The International Reciprocal Trade Association, based in Great Falls, Va., suggests checking with a local barter exchange to determine if the goods and services you want are available. Then



ILLUSTRATIONS: MARTHA VAUGHAN

obtain a list of the barter exchange's clients and ask about their experiences.

The goods or services received by a barter club member are subject to income tax. The retail value of the goods or services are determined by the barter exchange, which sends Form 1099-B to the member, showing the value received during the tax year.

For a free publications list and fact sheets, send a stamped, self-addressed envelope to International Reciprocal Trade Association, 9513 Beach Mill Road, Great Falls, Va. 22066. See also "Alternative Ways To Find Capital" in the April 1992 issue of *Nation's Business*. To order a copy, send a written request for reprint No. 8885 along with a check for $1.99 to *Nation's Business*, Reprint Manager, 1615 H Street, N.W., Washington, D.C. 20062-2000.

TRANSITIONS

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A.B., New York City

When you decide to sell your business,



"you need to get the word out, but at the same time you must be discreet," says Jane Applegate, a small-business consultant from Sun Valley, Calif.

Applegate, author of *Succeeding in Small Business* (Penguin Group), advises that you share your plans to sell a business only with your attorney, accountant, and banker.

The next step is to figure out the value of your business. ("Putting A Price Tag On Your Company," in the January 1992 *Nation's Business*, covers the subject in detail. To order a copy, send a written request for reprint No. 8873 and a check for $1.99 to *Nation's Business*, Reprint Manager, 1615 H Street, N.W., Washington, D.C. 20062-2000.)

Talk with people who have successfully sold businesses, Applegate says, and rely on a good accountant to structure the deal to your tax advantage. She adds: "Be sure to spend some time figuring out what you are going to do next, so you don't fall into a depression after the business is sold."

SELLING

Finding Flea Markets

I am a stained-glass artist. How can I get a listing of flea markets where I could put my pieces on consignment?
B.Y., Miami

There are 2,329 regularly operated flea markets nationwide, according to American Business Directories. The organization publishes *Flea Markets*, which includes the markets' names, addresses, telephone numbers, contact names, and numbers of employees. The price is $145.

If you are interested in a specific county, ZIP code, or metropolitan area, the cost is 7 cents to 12 cents per name, depending on the information you want, with a minimum order of $95.

For statewide listings, the price is 10 cents per name, with a minimum order of $75. To place an order or for information, write or call American Business Directories, 5711 S. 86th Circle, P.O. Box 27347, Omaha, Neb. 68127; (402) 593-4600.

Furniture Facts

I am thinking of starting a retail business that would sell a special type of wood table. Where can I get more information on small furniture manufacturers?
C.J., Houston

The American Furniture Manufacturers Association's membership directory may be helpful. It lists 350 association members by name, address, and business size. The publication costs $50 plus shipping and handling. Write the American Furniture Manufacturers Association, P.O. Box HP-7, High Point, N.C. 27261.

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I am interested in becoming a professional appraiser. Where can I get more information?
T.W., Tulsa, Okla.

The International Society of Appraisers offers a three-week certification program. Subjects include foundations of the appraising profession, ethics, business communication and marketing, terminology, methodology, authentication and identification, research, and writing basic reports.

The courses, offered throughout the United States, cost $300 for members of the appraisers' society and $450 for nonmembers.

For free brochures on starting an appraisal business, write or call the International Society of Appraisers, 500 N. Michigan Ave., Suite 1400, Chicago, Ill. 60611; 1-800-466-2277.

CRAFTS

Cottage Cash

I am a potter, and I have started a cottage business selling my pieces at various craft shows. How can I get more information on the cottage-industry phenomenon?
B.C., Louisville, Ky.

The National Association for the Cottage Industry lists more than 14,000 individuals who qualify as owners of cottage businesses. A cottage industry, according to the association, is a home-based business or an individual who works at a flexible or remote work site.

The association publishes *The Cottage Connection*, a quarterly newsletter that covers trends affecting cottage industries and includes news of coming events. An annual subscription, which includes membership in the cottage-industry association, is $45.



For information on cottage industries in the United States, send a self-addressed, stamped envelope to the National Association for the Cottage Industry, P.O. Box 14850, Chicago, Ill. 60614; (312) 472-8116.

NETWORKING

For Women In Business

I own a small company, and I am interested in joining a women's business organization. Any suggestions?
F.O., Wichita, Kan.

The American Women's Economic Development Corp. offers training and information to women in business. Write to the group at 71 Vanderbilt Ave., New York, N.Y. 10169; or call 1-800-222-2933.

The National Association of Women Business Owners can be contacted at 1377 K Street, N.W., Suite 637, Washington, D.C. 20005; 1-800-222-3838.

The Office of Women's Business Ownership, sponsored by the U.S. Small Business Administration, is another useful source of information. Write to the group at 409 3rd St., S.W., Washington, D.C. 20416; or call (202) 205-6673. NB

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To Your Health

Managing well includes managing your own health; here is advice to help you do that better.

By Marcia J. Pear

A Walk On The Wild Side



ILLUSTRATION: BILL COULTER

You're standing in front of the refrigerator at 3 a.m., gobbling fistfuls of raspberry jam. Another time you awaken in bed, wearing your overcoat.

No, you aren't going crazy. You're sleepwalking.

This unusual sleep condition, known as somnambulism, is the result of being caught between two states of consciousness. Each night, we pass through a series of sleep stages. Dreaming occurs during the lighter, REM (rapid eye movement) stage. The mind roams freely over vivid nocturnal landscapes, yet the body is essentially paralyzed. Gradually, we sink into dreamless slow-wave sleep. Most people proceed smoothly from one stage to another many times a night.

In sleepwalkers, however, the mechanism that governs the transition from slow-wave sleep to waking tends to malfunction, says Dr. Ernest Hartmann, professor of psychiatry at Tufts University, Medford, Mass., and director of the Sleep Disorders Center at Newton-Wellesley Hospital, Newton, Mass. "It's a disorder of arousal," he says. "Sleepwalkers are usually not self-aware, yet there is a lot of muscular activity."

Sleepwalking is more common in children than in adults. An estimated 15 to 30 percent of children sleepwalk at least once. By comparison, only about 1 percent of adults sleepwalk.

Episodes can occur a few times a week or less than once a year. The events are short-lived, usually under five minutes, and most people either come to full alertness or put themselves back to bed.

Adults who sleepwalk have a genetic predisposition to do so. "Something in a sleepwalker's brain stem didn't merge perfectly in childhood," Hartmann says. "But the brain is very adaptable; it eventually accommodates and finds other pathways [to traverse the sleep span]." That is why sleepwalking declines significantly as we age.

That also explains why stress, sleep deprivation, fever, or excessive alcohol and drug use can trigger a sleepwalking episode in someone who is susceptible.

Dr. Michael Silber, assistant professor of neurology at Mayo Medical School, Rochester, Minn., and a consultant neurologist with the Mayo Sleep Disorders Center, says, "If you're predisposed to sleepwalking, a loud noise can set off an episode, as can an unusual sleep-wake schedule." And, while sleepwalking may be inconvenient or even disturbing to the somnambulist, it's rarely dangerous. "Most sleepwalking is pretty benign, although people can injure themselves by falling down stairs, for example," he says.

There are a few well-publicized cases of violence linked to sleepwalking, such as the Canadian man who purportedly got into his car while fast asleep, drove to his wife's parents' home, and killed his mother-in-law. (He was acquitted.)

But "it's very unusual for someone who's sleepwalking to act in a specific, goal-directed way," Silber says.

The condition is likewise rarely indicative of an underlying psychological problem. And while there appears to be a tendency among some sleepwalkers to ingest bizarre foods or even nonfoods like cigarettes, there aren't common sleepwalking "themes," Silber says.

It is important to distinguish sleepwalking from another dramatic nighttime disturbance known as REM sleep behavior disorder. "In REM behavior disorder, people actually act out their dreams," Silber says. "They lose the muscle paralysis that is common in normal REM-stage sleep." One man dreamed he was a star quarterback, tackled his bedroom dresser, and gashed his forehead.

What is the surest way to quell a midnight rambler's wanderlust? The conventional wisdom about guiding a sleepwalker gently back to bed is sound. Says Silber: "Don't try to wake them because you might not succeed, and the person could become confused and lash out in reaction to being touched."

For occasional sleepwalkers, common-sense precautions work best. First, Hartmann says, make the sleep environment as safe as possible. Lock your door, and avoid sleeping next to a large plate-glass window. Second, skip late-night caffeine, alcohol, and heavy meals, and don't exercise right before bed.

If sleepwalking is turning you into a daytime zombie or endangering anyone, more serious steps may be in order. The American Sleep Disorders Association can provide referrals to accredited sleep clinics throughout the United States. Call (507) 287-6006.

Hartmann suggests that for some people, "psychotherapy can be helpful in freeing repressed anger and other emotions that can aggravate sleepwalking tendencies." Silber has successfully used hypnosis to help nonviolent sleepwalkers curtail their meanderings. Finally, in the most severe cases, medication may be appropriate.

Often, Silber says, "just reassuring a sleepwalker that this is not something sinister or psychiatric" can go a long way toward calming jangled nerves. NB

Marcia J. Pear is a free-lance health writer in San Francisco.

It's Your Money

A monthly survey of strategies and suggestions to help you with your personal finances.

By Peter Weaver

AUTOMOBILES

A Used Lease Car Could Be A Good Buy

As the 1994 models arrive in car showrooms, dealers are also selling 1992 models whose two-year leases have just expired. The dealers started heavy promotion of two-year personal leases a couple of years ago, and now the trade-ins (or lease-ins) are coming back for resale.

Are these used cars, which are often in excellent condition, good buys? "It depends on how long you plan to keep the car," says James Boerger of Fairfax, Va., author of a handbook for car buyers published by the American Automobile Association.

If, for example, you plan to keep the car for a long time, until it wears out, buying a used lease car might be a good deal. "One of my buyers got a 2-year-old Lincoln with less than 10,000 miles for only $23,000," Boerger says. "The original cost was $36,000."

Because the buyer planned to keep the car a long time, depreciation wasn't a worry. Neither was financing.

But for the average customer, who wants to keep a car for four years or so and is concerned about overall cash expenditure, a new car might be the better way to go.



PHOTO: ©BACHMANN-LIMPHOTO

The price *of that used lease car may be inviting, but is there a hidden cost?*

"When you run the numbers on a new car vs. a 2-year-old, the new car almost always wins," says Jerry Duffy, sales manager of Jefferson Bank Leasing Services Division, a Maryland-based subsidiary of Jefferson Bank.

Duffy uses a 1994 Ford Taurus with normal equipment as an example. The price of the new Taurus is $14,000; the price of a 2-year-old Taurus, similarly equipped, is $8,500. At first blush, it seems like a terrific deal. It appears you can save $5,500 on a car that is almost identical to the $14,000 edition.

"But watch out," Duffy warns. "The numbers don't add up when you take into account depreciation, financing, warranty coverage, and maintenance costs."

According to Duffy's figures, if you keep your 2-year-old $8,500 Taurus for another two years and trade it in, you will get $3,500. The cost of depreciation would be $5,000.

If, instead, you buy the new car for $14,000 and sell it in two years, you will get $7,200. "The $5,500 savings you thought you were getting in your initial price comparison is now down to $1,800, and the additional maintenance costs you'll face on the older car will eat up the $1,800.

"On top of that," he says, "you won't have nearly as good warranty coverage, and the cost of financing the used car will be much higher." ■

HEALTH CARE

Spotting Errors In Hospital Bills

If you or a member of your family has to go to the hospital, check your bill carefully. Erroneous charges are commonplace.

"Ninety percent of the bills we monitor have errors or excessive charges," says Demmie Hicks, chief operating officer for Atlanta-based Medical Review Systems, which monitors hospital bills for 150 corporate clients and insurance companies. "The average hospital cost reduction for clients is around 20 percent."

Your health-care plan may pay for most of the overcharges but by no means all of them, and these overcharges may be ultimately reflected in future premiums. "With all the deductibles and co-payment clauses, you may very well be stuck with paying for at least 20 percent of the hospital billing errors, overcharges, and double charges," says Michael Donio, project director for the People's Medical Society, a national consumer organization based in Allentown, Pa.

John Ross, spokesman for the Chicago-based American Hospital Association, blames some of the billing trouble on the hundreds of insurance companies that hospitals have to deal with. "They have different sets of forms, procedures, symbols, and methods of coding charges," he says.

Catching the mistakes isn't easy, but it can be done by preparing before you enter a hospital and by careful monitoring while you're there. "If it's at all possible, we suggest keeping a log of all the procedures and items being used," Donio says.

If you are seriously ill or incapacitated, it won't be possible to do the checking yourself. In that case, "try to line up a member of your family or a close friend to act as your bill-monitoring advocate," says Donio, adding that "your medical record [which is available to patients] will show what procedures were done and what items, such as medications from the pharmacy, were actually used."

You might be able to get some instruction and support from your company health plan's insurance company. "Another good source that patients and their families often overlook is the hospital's patient representative or patient advocate," says Ross. These people work with hospital staff and insurance companies and can help you ferret out possible overcharges.

The People's Medical Society has several publications that might be of help, including *Take This Book To The Hospital With You* and *150 Ways To Be A Savvy Medical Consumer.* For information, call 1-800-624-8773. ■



Peter Weaver is a Washington-based columnist on personal finance.

TRAVEL

Know Where To Go For Bargain Trips

Many spots in Europe have become too expensive to enjoy. The same goes for the Far East.

But some countries you may have never considered as plausible destinations are now heading travel professionals' lists of dollar-value places to explore.

"One of the hottest emerging destinations is Costa Rica," says Jerry Cheske, a spokesman for the American Automobile Association. Travel *cognoscenti* have referred to Costa Rica as the Switzerland of the Western Hemisphere.

Tad Szulc, a Washington-based author on foreign affairs and a former correspondent for *The New York Times*, says Costa Rica "is peaceful—no revolutions since the 1940s—prosperous, clean and tidy, and has outstanding hotels, beaches, and mountains."

Szulc and other international travelers also like Bulgaria, which has excellent beach resorts and mountain scenery. Here, the dollar carries a lot of clout as far as prices for hotels, meals, and sightseeing are concerned.

Cheske of AAA says Cabo San Lucas, at the tip of Mexico's Baja Peninsula, is of particular interest.

"It has a wonderful climate, plus outstanding deep-sea fishing, top-notch resort hotels, and beautiful beaches," Cheske says. "We have a Cabo San Lucas package from Portland, Oregon, that includes round-trip air fare and hotel for seven days for $600."

Similar deals can be arranged from other American cities.



PHOTO: DAVID MacKENZIE-UNIPHOTO

Travelers *who want to go off the beaten—and expensive—path sometimes head for Quito, Ecuador.*

Then there is Quito, Ecuador. Like Costa Rica, Ecuador has a stable government, and there are spectacular mountain and sea resorts to be had for modest prices.

A survey published by Runzheimer International, a business-travel consulting firm based in Rochester, Wis., shows that Quito costs $117 a day (for a business-class hotel, breakfast, lunch, and dinner) compared with $297 a day in New York City.

When looking for a dollar-value country, you have to find out how much it will cost to fly there. You might get a hotel room, all meals, and amenities for only $95 a day, but the airfare might run into the thousands of dollars.

Says Cheske: "Look for all-inclusive packages to these bargain places because travel companies, through bulk buying, can get much better air fares, hotel rates, even meal prices."

Local travel agents and national organizations such as American Express, AAA, and the American Association of Retired Persons should be able to uncover any number of dollar-value countries that would fit your vacation needs. ■

INSURANCE

Coverage Problems With In-Home PCs

If you have personal computers and software that you use at home for business purposes, you could easily have equipment worth up to $10,000—and be dangerously underinsured.

"You may be partially covered by your homeowner's policy, but the coverage may be limited to $2,000 or less," says Jeanne Salvatore, spokeswoman for the Insurance Information Institute, in New York. She recommends that you explain to your insurance seller "all the gear you have, how much it cost, and how you plan to use it." If, for example, you use your PC primarily for business (taking a tax deduction), an endorsement must be written into the policy.

And then there is all that software. "Most homeowner insurance doesn't cover it," says Louise Sacco, who heads a consultant group affiliated with the Boston Computer Society.

"Some companies specialize in software and related PC coverage, but you have to shop around to find it," Salvatore says.

If you have a notebook or laptop PC that you use in your travels, make sure your policy has a "floater" clause that covers your equipment wherever you go.

Salvatore and Sacco recommend computer insurance that covers replacement cost, not just current market value. NB

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For Your Tax File

How to keep taxes from trapping you.

By Albert B. Ellentuck

PLANNING

Know Which Transactions Are Considered Tax-Free

Small-business owners should evaluate the tax consequences of transactions involving them. It is most important to know which transactions are tax-free and which are taxable. A receipt of $1,000, for example, is worth $1,000 if it is tax-free but only $700 (more or less, depending on the tax bracket) if it is taxable.

Some types of receipts fall into gray areas, and the tax consequences may not be clear. Although recoveries for physical injuries are generally tax-free, what about damages in an age-discrimination lawsuit? The Tax Court recently ruled that such damages are totally tax-free, but a federal District Court has held that such amounts are only partially tax-free.

These rulings may be affected by the particular facts of the cases and how the awards are structured. An award for so-called liquidated damages (for willful discrimination) is considered compensation for nonmonetary losses—which is distinct from an award for back pay—and has a better chance of being treated as tax-free to the recipient. For the business owner who must pay out such an award, however, it's more advantageous to have it structured as back pay because it would then be deductible.

Here are other examples of receipts that are generally tax-free:

■ Amounts received under accident and health plans, compensation for injuries or illness, contributions to qualified accident and health plans by an employer, benefits received under qualified cafeteria benefit plans, most life-insurance benefits, workers' compensation benefits, and certain fringe benefits.

■ Up to $125,000 of the gain from the sale or exchange of the residence of an individual who has reached age 55, and all of the gain from the sale or exchange of the residence of an individual who reinvests all of the proceeds, with the gain deferred.

■ Meals and lodging furnished for the convenience of an employer, and scholarships and fellowship grants.

■ Interest on certain state and local government obligations, such as municipal bonds.

■ Income from the discharge of indebtedness if the taxpayer is insolvent or in bankruptcy. ■



PHOTO: T. MICHAEL KEZA

An award for damages *in an age-discrimination case was declared tax-free by this court.*

DEDUCTIONS

The Self-Employed Regain A Tax Break On Health Coverage

A health-insurance tax break particularly important to the nation's self-employed was restored under the recently enacted Revenue Reconciliation Act of 1993.

Under the new budget legislation, the 25 percent deduction for health-insurance expenses incurred by self-employed individuals is available retroactively from July 1, 1992 through Dec. 31, 1993. The tax break had expired June 30, 1992.

Among the typically self-employed are accountants, engineers, free-lance artists, photographers, writers, lawyers, newsletter publishers, professional golfers, and many other sole proprietors and partners.

Take the example of a grocery store owner with an adjusted gross income of $80,000, health-care premiums of $5,000, and unreimbursed medical expenses of $1,000. Without the 25 percent deduction, the owner could not deduct any medical expenses. Like any taxpayer who was not self-employed, he could deduct the amount of his medical expenses—including health-insurance premiums—that exceeded 7.5 percent of his adjusted gross income; however, none of his $6,000 in expenses exceeded that amount.

But as a self-employed individual and under the recently restored tax break for insurance premiums, the owner could deduct 25 percent of the $5,000 premium, or $1,250. (The 25 percent deduction does not apply to unreimbursed medical expenses.)

Although self-employed workers can deduct premiums paid for themselves, their spouses, and dependents, they cannot claim the deduction for any month in which they are covered by a spouse's employer-paid health plan.

Because of uncertainty over whether Congress would restore the deduction, some taxpayers did not claim it for the last six months of 1992. Since the change applies retroactively, those who neglected to take the deduction can file an amended return to obtain a refund. (Note: President Clinton recently said he favors a permanent, 100 percent health-insurance deduction for the self-employed.) NB



Tax lawyer Albert B. Ellentuck is a partner in the Washington law firm of Colton and Boykin. Readers should see tax and legal advisers on specific cases.

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ON BUSINESS ETHICS

Results of this poll on business ethics will be used by business leaders in developing policies on this topic.

Send the attached, postage-paid response card. Or circle your answers below, and fax this page to (202) 463-5636.

1 **How do you believe unethical conduct and illegal behavior in business have changed in recent years?**

1. Increased
2. Decreased
3. Stayed about the same

2 **Which is the most effective deterrent to unethical or illegal behavior by businesses?**

1. Market forces and economic consequences
2. Government regulation and controls
3. Voluntary compliance and self-policing by business
4. Effective leadership by executives

3 **Do you think business's efforts to police itself and comply with laws can stem additional federal regulation and oversight?**

1. Yes
2. No
3. Undecided

4 **Does your company have a code of ethics or conduct stating corporate values and providing guidance for employees?**

1. Yes
2. No
3. My company is considering or developing one

5 **To what degree is ethical behavior and integrity within your company important to its financial success?**

1. Very important
2. Somewhat important
3. Of little importance
4. Of no importance

6 **Do you think ethical behavior by your company is recognized by your customers/clients?**

1. Yes
2. No
3. Undecided

Send Your Response Today!

POLL RESULTS

Readers' Views On The Minimum Wage

A strong majority of *Nation's Business* readers responding to a Where I Stand poll on the minimum wage expressed opposition to increasing it directly or through an indexing plan. The majority of respondents also said that an increase would require them to halt or slow hiring or to lay off employees.

The survey in the August issue sought opinions on proposals pending in Congress to increase the wage floor, now $4.25 an hour, by $1.75 or $2.50, and on the economic impact of minimum-wage requirements in general.

Here are the complete results of the poll:

MINIMUM WAGE

The federal minimum wage, now $4.25 an hour, would go to $6 or $6.75 under different bills in Congress. Congress should:	1. Raise it to $6	7%
	2. Raise it to $6.75	3%
	3. Raise it to a level under $6.	15%
	4. Leave it at $4.25	75%
Pending legislation also calls for an indexing system that would guarantee annual automatic cost-of-living increases. Do you:	1. Support indexing	11%
	2. Oppose indexing	85%
	3. No opinion	4%
How would an increase into the $6-to-$6.75 range affect employment in your company?	1. Halt hiring	19%
	2. Slow down hiring	27%
	3. Require layoffs	27%
	4. No impact	27%
Some economists argue that mandated minimum wages deny entry-level jobs to young workers. Do you:	1. Agree	74%
	2. Disagree	21%
	3. No opinion	5%
Opponents of a minimum-wage increase argue that it would push up wages generally, thereby hurting U.S. competitiveness. Do you:	1. Agree	80%
	2. Disagree	16%
	3. No opinion	4%
If you think that the minimum wage has the adverse economic effects cited in Questions 4 and 5, do you favor:	1. Reducing the present amount	12%
	2. Eliminating the minimum wage	50%
	3. No opinion	38%

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Congressional Alert

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Addresses: U.S. Senate, Washington, D.C. 20510; U.S. House of Representatives, Washington, D.C. 20515.

Chance To Increase Regulatory Input



ILLUSTRATIONS: RICHARD GAGE

The House could soon consider legislation that would eliminate significant weaknesses in the Regulatory Flexibility Act of 1980, forcing federal agencies to consider seriously the impact of new rules and regulations on small businesses.

The act was designed to force federal agencies to take into account the impact and cost of their regulations on small businesses and to design ways to minimize that impact. If it were properly administered, according to the U.S. Chamber of Commerce, the law could be an important tool in small business's efforts to fight off the negative effects of excessive federal regulations.

However, one section of the law, which prohibits judicial review of federal agencies' compliance with the act, effectively hinders implementation.

Because federal regulators do not face the threat of judicial action for failure to comply with the act, it is easy for agencies to comply halfheartedly or ignore the law altogether, according to the Chamber.

H.R. 830, the Regulatory Flexibility Amendments Act of 1993, introduced by Rep. Thomas W. Ewing, R-Ill., would clarify and strengthen the role of the chief counsel for advocacy at the Small Business Administration in monitoring compliance. Agencies would be required to let the chief counsel see proposed rules in advance, enhancing the opportunity for small-business input before regulations are finalized.

The U.S. Chamber supports H.R. 830 because it would require agencies to consider the indirect and direct effects of their proposed rules on small firms. In addition, strengthening the chief counsel's ability to monitor and implement the Regulatory Flexibility Act would ensure that small-business interests are considered in the rule-making process.

Contact your representative and urge him or her to support H.R. 830. ■

Eliminate Recoupment Fees

Later this year Congress could vote on legislation to eliminate extra charges placed on the sale of U.S. defense-related products abroad.

According to the U.S. Chamber of Commerce, passage of such a measure would have the potential to create thousands of new U.S. jobs.

The charges at issue are typically referred to as recoupment fees and are imposed by the federal government on contractors when the products and technology being sold were initially developed under government contracts.

Recoupment fees originated in the 1960s as a way of sharing weapons-development costs with U.S. allies. In 1976, Congress amended the Arms Export Control Act to require that the fees be imposed on government-to-government sales of defense-related products.



Because the U.S. now competes with its allies and former adversaries for sales of defense-related equipment, the additional fees put U.S. firms at a disadvantage, the U.S. Chamber says.

Former President Bush advocated repeal of recoupment charges in 1992; the Clinton administration agreed with this policy and ordered all regulatory recoupment charges eliminated at the Department of Defense in January 1993. On Aug. 5, the Defense Department—with Clinton administration approval—sent a proposal to Congress to repeal the government's authority under the Arms Export Control Act to charge recoupment fees.

The U.S. Chamber strongly backs elimination of the fees, whose calculation, it says, is burdensome and costly and serves no productive purpose. Further, the fees hinder the ability of affected firms to create jobs.

Contact your representative and senators to urge them to support the administration's proposal to eliminate all recoupment fees. ■

More Harm Than Good On OSHA



Legislation to revise the Occupational Safety and Health Act would impose higher civil penalties, greater criminal liability, and complex new mandates on employers, according to the U.S. Chamber of Commerce.

H.R. 1280, the Comprehensive Occupational Safety and Health Reform Act (COSHRA), was introduced in the House by Rep. William D. Ford, D-Mich. A nearly identical bill, S. 575, was introduced in the Senate by Sen. Edward M. Kennedy, D-Mass.

The lengthy bills would reform current federal law on occupational safety and health. According to the U.S. Chamber, both are filled with unworkable employer mandates, onerous requirements, and a section creating new crimes and increasing fines for violations of existing Occupational Safety and Health Act rules.

Proponents could try to move the bills out of committees and onto the House and Senate floors for votes this fall.

A special task force at the Department of Labor is analyzing the bills for the Clinton administration, which has yet to take a position on the measures.

The U.S. Chamber believes that while some changes in the Occupational Safety and Health Act are warranted, COSHRA's broad changes are unnecessary and unworkable and would actually decrease employers' ability to improve employee safety. The Chamber is refining an alternative to the current legislation and is urging congressional consideration of other means, such as incentives, to encourage employers to improve workplace health and safety voluntarily.

Meanwhile, Reps. William F. Goodling, R-Pa., and Harris W. Fawell, R-Ill., offered an alternative to the Ford/Kennedy bills—H.R. 2937—on Aug. 6. The Chamber is now analyzing this proposal.

For the time being, simply contact your representative and senators to urge them to oppose H.R. 1280 and S. 575. NB

Editorial

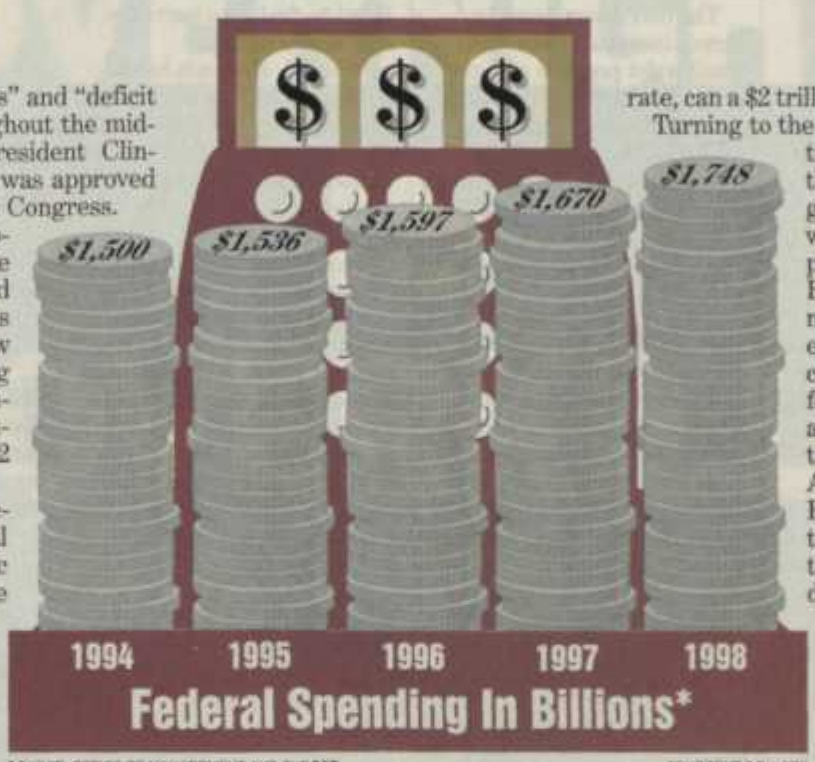
When Less Spending Is Really More

The terms "spending cuts" and "deficit reduction" echoed throughout the mid-summer debate over President Clinton's budget plan, which was approved by a razor-thin margin in Congress.

The president's supporters argued that the plan's tax increases and spending reductions would strike a double blow at the red-ink spending that has seen the government's total debt quadruple, to $4 trillion, in 12 years.

The White House described the plan as "a vital first step toward economic renewal, a long-overdue change in the fiscal direction of the nation."

Specifically, it said, the president's plan would cut the total of the annual deficits over the next five years by some $500 billion, with half of that amount coming from the expenditure side of the ledger and the other half from higher taxes. The result, it was promised, would be a revitalized economy. But a close examination of the plan suggests that the actual impact could be considerably less.



SOURCE: OFFICE OF MANAGEMENT AND BUDGET *CURRENT DOLLARS

A basic problem is that the tax increases are very real, while the spending reductions are the ephemeral product of that peculiarly Washington ploy known as the base-line budget. It's a way of showing that more spending is really less spending.

The approach works like this: Under the provisions of present law combined with the inflation rate and demographic trends, a given program will go up $1 billion a year over five years. That's the base line. Congress and the president decide to limit the growth to $750 million a year. The change is chalked up as a $1.25 billion *cut*, the difference between the original base-line trend and the newly set total for the five years.

The fact that the spending is actually going up $3.75 billion over the same period is usually lost amidst the claims that spending on the program has been sharply curtailed.

While guarantees of spending cuts still reverberate from the recent fiscal-policy debate, the Office of Management and Budget (OMB) reports that outlays will be nearly $1.8 trillion by 1998, compared with $1.46 trillion this fiscal year. At that rate, can a $2 trillion budget be far behind?

Turning to the deficit, the administration now says reductions through 1998 will be even greater than promised when the budget bill was passed in early August. But even under the new numbers, which many economists consider excessively optimistic, the federal debt will go up an additional $1 trillion from the present $4.3 trillion. And the Congressional Budget Office, the legislative branch's counterpart to OMB, is already predicting that the five-year deficit reductions will fall $63 billion short of the White House goals.

A major factor in the reduction in the administration's deficit projection is the expectation that interest rates will stay low enough to give the economy a boost. The administration projects the rate on long-term treasury notes to drop next year to 5.9 percent (from 6.0 percent this year) and stay there through 1998. But the Blue Chip survey, based on the views of a panel of private-sector economists, sees the rate at 7.4 percent in 1995, 7.6 in 1996, 7.4 in 1997, and 7.3 in 1998.

If the White House is wrong about interest rates, its optimism on deficit trends could prove unfounded.

There are other reasons for concern. The decision to implement most tax increases in the early years of the plan and delay the bulk of the claimed savings to the latter years has raised the fear that Congress may restore some of the rolled-back outlays under election pressures next year. Many of the members who voted for the higher taxes consider themselves particularly vulnerable, and they may seek ways to regain constituents' support through pork-barrel tactics.

Another unknown is the extent to which higher taxes will discourage work and investment because of diminished rewards or simply because funds that could have gone into business expansion have been diverted to Washington. Either way, projected revenues would decline.

Perhaps the budget plan will turn out to be that "vital first step toward economic renewal." At this time, however, there are too many uncertainties to warrant such a conclusion.

Free-Spirited Enterprise



ILLUSTRATIONS: BILL COULTER

By Janet L. Willen

An Open And Shut Case

Manufacturers can add a new twist to their plastic packages. It's called Le Loop, and it comes from **Simple Packaging Solutions,** of Sausalito, Calif.

The Le Loop bag looks like a standard pouch for packaged goods such as frozen peas, bird seed, or marshmallows, but it comes with its own device to make it reclosable.

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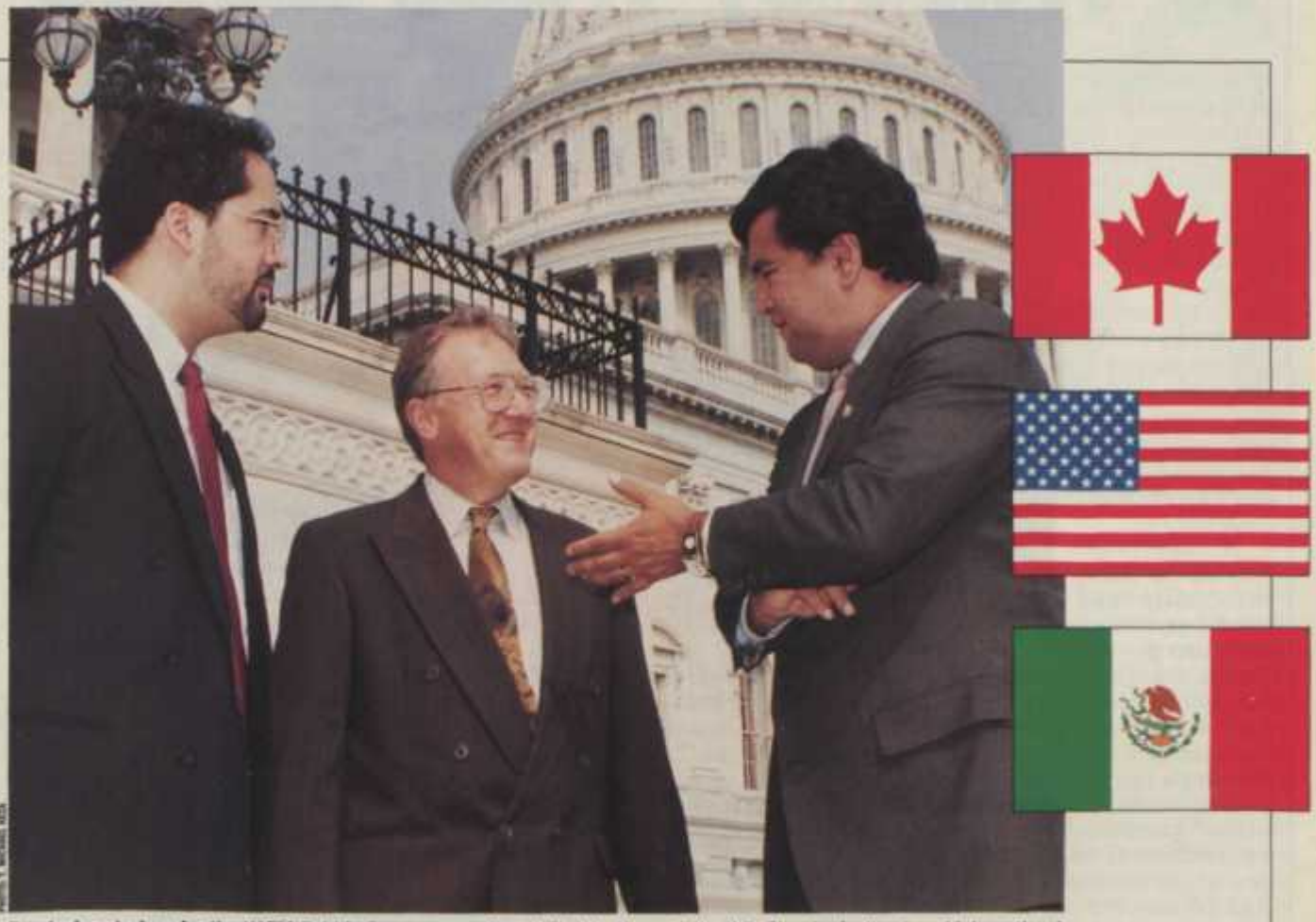
Call 1-800-GO-TOYOTA for a Truck brochure and the location of your nearest dealer. *1991-1993 J.D. Power and Associates Light Truck Customer Satisfaction with Product Quality and Dealer Service Studies™ 1993 study based on 8,394 consumer responses. ***Due to recent introduction, Toyota T100 not included in study.*** **Including occupants, equipment and cargo with 5-speed manual overdrive transmission. †V6 models, not to exceed GCWR of 9,000 lbs. Requires Class III-rated towing bumper or tow hitch, available as optional accessories.

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U.S. CHAMBER OF COMMERCE

The Business Advocate

SUPPLEMENT TO Nation's Business OCTOBER 1993



Developing strategy for the NAFTA fight in Congress are, from left, John Howard, the U.S. Chamber's director of international programs and policy; Boyd Berends, chairman and CEO of ProLight, in Holland, Mich.; and Rep. Bill Richardson, D-N.M.

NAFTA

Chamber Enlists Smaller Firms In Urgent Trade Fight

See Next Page

Health-Care Action

See Page 91

■ Economy

U.S. Chamber Mobilizes To Win Key Trade Battle

The U.S. Chamber of Commerce is intensifying its effort to mobilize small- and mid-size-business members in support of the North American Free Trade Agreement (NAFTA) as the U.S. Senate and House of Representatives begin debating the important and controversial trade pact.



Ivan W. Gorr, chairman of the U.S. Chamber's board of directors, addresses the San Antonio (Texas) Chamber of Commerce about the North American Free Trade Agreement. His speech was part of the Chamber's blitz aimed at galvanizing small and medium-sized firms nationwide in support of the pact.

If approved, NAFTA will phase out tariffs and other barriers to trade among Canada, the U.S., and Mexico beginning Jan. 1. The agreement would make it much easier for small companies to do business in Mexico, which is already America's third-largest and fastest-growing export market.

The Chamber is working closely with trade officials of the Clinton administration and a bipartisan group of pro-NAFTA senators and representatives to convince a majority in Congress that the agreement will stimulate the U.S. economy and foster job creation. That task will not be easy, notes Chamber Vice President/International Willard A. Workman.

Organized labor, some environmental groups, and 1992 presidential candidate Ross Perot are persuading their constituents to write members of Congress, urging opposition to the agreement, he says. These letters charge that the pact will cost many Americans their jobs and result in further environmental degradation of the U.S.-Mexico border region.

"That's balderdash," Workman says. "Nobody knows for sure the number of jobs America will gain or lose with a NAFTA, but 19 of 20 studies conducted to assess the agreement's potential impact on employment conclude that America will add, not lose, jobs over time as a result of NAFTA."

And according to the U.S. Department of Commerce, about 700,000 American manufacturing jobs depend on current merchandise exports to Mexico.

The Chamber's legislative strategy on NAFTA, notes Workman, centers on countering letters of opposition with pro-NAFTA communications from the owners, managers, and even rank-and-file employees of small and medium-sized businesses that currently export or plan to export to Mexico.



Chamber members who understand the importance of the pact are encouraged to write their senators and representatives and urge them to vote for the agreement.

Because the House and Senate NAFTA votes are expected to be close, every communication is extremely important. Letters to those who are undecided or are leaning for or against the pact are critical, but even communications with lawmakers strongly supporting the agreement are needed to reinforce their positions.

The addresses are: U.S. Senate, Washington, D.C. 20510, and U.S. House of Representatives, Washington, D.C. 20515.

Resources Offer More Details

A Guide to the North American Free Trade Agreement, which is a detailed analysis of the pact, is available from the U.S. Chamber for $27.50.

A videotape of a one-hour NAFTA satellite town meeting may also be obtained from the Chamber for $29.50.

To order either or both, send a check to International Division/Publications, U.S. Chamber of Commerce, 1615 H Street, N.W., Washington, D.C. 20062-2000. Make the check payable to the International Division/Publications, U.S. Chamber.

Also available is a reprint of the December 1992 cover story in *Nation's Business* magazine, which details how a unified North American market would offer new opportunities to small U.S. firms. The cost is $1.99, with quantity discounts available. To order this reprint (No. 8924), call 1-800-692-4000.

Information, including your congressional members' current position on the agreement, is available by calling Wolf Brueckmann, David Hirschmann, or Andrew Howell in the Chamber's international division at (202) 463-5460.

■ Business Ballot

Employers Want A Say In Education

Business people want to be involved in educating and training students, and they want local control over education and training issues, say the majority of respondents to the latest poll of U.S. Chamber of Commerce members.

More than 73 percent of the respondents to the August Business Ballot poll said that business should play a long-term, strategic role in education and training at the local, state, and federal levels. Only 18.4 percent said business should not be involved in education and training, while 8.5 percent were undecided on the issue.

An overwhelming majority of respondents—84.5 percent—said that the federal government should give states and localities more flexibility in implementing education and training regulations in exchange for greater accountability for results. Just over 8 percent disagreed, and 7.3 percent were undecided.

More than 54 percent of the respondents said that the federal government should not provide additional funds for programs that prepare high-school students for the increasingly technological and competitive workplace, while nearly 36 percent said the government should. Ten percent were undecided.

The poll also asked if high-level national skill and knowledge standards for specific occupations should be established by a group of employers, educators, and others concerned about education and training. Fifty-two percent said yes, 31 percent said no, and 17 percent were undecided.



A majority of U.S. Chamber members believe knowledgeable individuals should be allowed to teach even if they lack teaching credentials, the latest Business Ballot shows.

Of the nearly 9,000 Chamber members responding to the poll, 61.3 percent said knowledgeable individuals who lack teaching credentials should nonetheless be allowed to teach in public schools, while 28.1 percent said they should not; 10.6 percent were undecided.

■ The Economy

Confidence Falls Again, Poll Shows

Business's confidence in the economy is continuing a slide that began in spring, according to the latest Business Ballot poll of members of the U.S. Chamber of Commerce.

The Business Confidence Index, as determined by poll respondents' answers to three bimonthly questions on their economic outlook, fell to 45.6 in August from 47.7 in June. The index dropped for the third time in a row and reached its lowest level since December 1991, when it was 39.3.

"The index is indicative of the economy's inability to develop any real momentum," said Martin A. Regalia, vice president and chief economist of the U.S. Chamber. "In addition to their concern over the economy's failure to generate significant job growth, business owners are unsure of the Clinton administration's economic plan and are worried about future regulatory and health-care costs," he said.



The index is based on Chamber members' outlook for their firms' sales and employment and for the economy as a whole over the next six months. An index of 50 means the number of respondents expecting increases in the three areas is equal to the number expecting decreases.

The percentage expecting the economy to improve over the next six months fell to 13.9 percent in August from 15.5 percent in June. And 48.6 percent, compared with 44.1 percent in June, believe the economy is headed down. Expecting no change were 37.5 percent of respondents, down from 40.4 percent in June.

Concerning their own companies' prospects over the next six months, 36.8 percent of respondents expect their sales to rise, 25.1 percent believe sales will fall, and 38.1 percent expect no change. Seventeen percent expect to add employees, 20.6 percent expect to cut workers, and 62.4 percent believe their work forces will remain stable.

Reflecting The Spirit Of ENTERPRISE

The U.S. Chamber of Commerce recently presented its annual Spirit of Enterprise Award to 203 members of Congress for their strong support of business during 1992. The award is presented to lawmakers who backed the Chamber's position on issues it identified as critical to business at least 70 percent of the time during the previous session of Congress. (See the complete list of winners on Page 100.)



Sen. Conrad Burns, R-Mont., left, and U.S. Chamber President Richard L. Lesher discuss the importance of the Spirit of Enterprise Award.

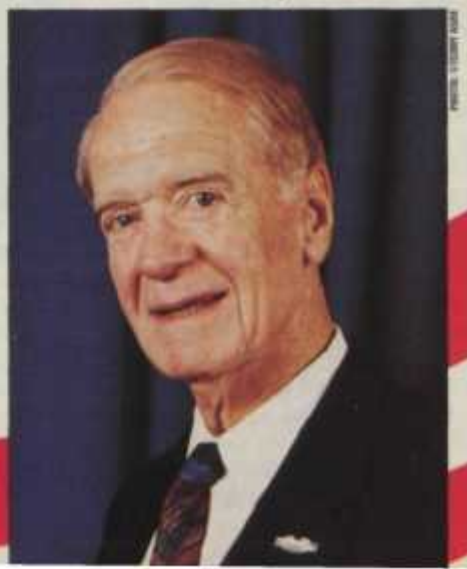




Rep. G.V. (Sonny) Montgomery, D-Miss., was among the 166 House members and 37 senators honored by the Chamber.



Clockwise from top, award winners Rep. Michael Bilirakis, R-Fla., Sen. Malcolm Wallop, R-Wyo., and Rep. H. Martin Lancaster, D-N.C.









Above, U.S. Chamber President Richard L. Lesher, right, presents the Spirit of Enterprise Award to Sen. Connie Mack, R-Fla., a former banker. At far right, top, Rep. Paul E. Gillmor, R-Ohio, center, talks with representatives of the U.S. Chamber at a reception for House recipients of the annual Chamber award. In photo at immediate right is award winner Rep. Fred Grandy, R-Iowa, speaking at a House Ways and Means Committee hearing.



Above is Rep. Jerry Lewis, R-Calif., at the Chamber awards presentation. Below, Rep. Marge Roukema, R-N.J., is greeted by, from right, Chamber Senior Vice President/Policy and Congressional Affairs William T. Archey, Vice President/Public Liaison Milt Mitler, and Senior Vice President/Communications Carl Grant.



Rep. Wayne Allard, R-Colo.



Rep. Thomas W. Ewing, R-Ill.



Rep. Dave McCurdy, D-Okla.



■ **Chamber Action**

Leave Regulations



The U.S. Chamber of Commerce is working to change proposed regulations for implementing the Family and Medical Leave Act, which took effect Aug. 5.

Final regulations, which have been delayed, are expected to be issued by the U.S. Labor Department early next year. Meanwhile, employers are bound by the interim rules, which took effect in August.

The leave law requires U.S. businesses with 50 or more employees to provide up to 12 weeks of unpaid leave per year for the birth or adoption of a child or for an employee's own illness or that of a child, spouse, or parent.

The Chamber says the proposed rules by themselves would not be overly burdensome for business but, when combined with other workplace regulations, could pose significant problems for employers.

Among the issues that could cause particular difficulty for smaller businesses, the Chamber says, are:

■ An overly broad definition of a serious health condition, which could open the door to chronic absenteeism, says attorney John Hoag, of the Greenville, S.C., office of Ogletree, Deakins, Nash, Smoak, & Stewart. The law firm helped prepare the Chamber's rule-change recommendations.

("Serious health condition" is defined as an illness, injury, impairment, or physical or mental condition that involves either in-patient care in a medical facility or continuing treatment by a health-care provider.)

■ Burdensome, ongoing requirements of employers to explain to employees their rights under the law.

■ The inconsistencies between the proposed rules and the provisions required by many employee benefit plans.

■ Record keeping required when employees take leave in small increments.

The interim rules allow employees to take family or medical leave in the smallest increments used by the employer's payroll system, which in many businesses are parts of an hour. The Chamber suggests that the rules set a minimum period for leave of four hours or a half-day to minimize record-keeping requirements.

The Labor Department is accepting comments on the proposed regulations until Dec. 3. For copies of the interim regulations, call the U.S. Department of Labor at (202) 219-8743.

U.S. Chamber members may submit their own written comments to the Administrator, Wage and Hour Division, U.S. Department of Labor, Room S-3502, 200 Constitution Ave., N.W., Washington, D.C. 20210, or fax them to (202) 219-5122.

■ **Seminars**

Leadership Series Begins

Response has been strong for the fall satellite seminar series sponsored by the quality learning services division of the U.S. Chamber of Commerce.

The seminars are being seen at sites in most states and in Canada; sites include local chambers, individual businesses, and community colleges.

Some local satellite networks are making the series available through their members.

In Wisconsin, for example, WisConLink, a network of technical colleges, is offering the seminars in communities across the state. The Minneapolis-based Target retail chain and the American Red Cross are also presenting the seminars at multiple sites.

Stephen R. Covey, author of the best-selling book *The Seven Habits of Highly Effective People* (Fireside/S&S), headlines the fall series, which began Sept. 16. Covey, the founder of the Covey Leadership Center, in Provo, Utah, will conduct the Nov. 2 seminar on "Principle-Centered Leadership," the title of another of his books.

Other seminars in the 10-part fall series are being led by management experts from the Juran Institute, in Wilton, Conn., and Joiner Associates, in Madison, Wis. The subjects and leaders of the eight remaining seminars are:

■ **Oct. 7** — "Mining for Gold—The Hidden Costs of Poor Quality," G. Howland Blackiston, president and COO, Juran Institute.

■ **Oct. 14** — "Customer Satisfaction and Loyalty—Keep Them From Shopping Around," Christopher Fay, vice president, Juran Institute.

■ **Oct. 21** — "Innovation and Creativity in Quality—Inciting Big Ideas in Small Businesses," A. Blanton Godfrey, chairman and CEO, Juran Institute.

■ **Nov. 2** — "Principle-Centered Leadership—Beyond the Seven Habits of Highly Effective People," Stephen R. Covey, Covey Leadership Center.

■ **Nov. 10** — "Quality for Work Groups—When Workers Act Like Owners," Rick Dmytrow, vice president, Juran Institute.

■ **Dec. 1** — "Creating Systems for Peak Performance—Build Quality Into Daily Routines," Peter Scholtes, senior management consultant, Joiner Associates.

■ **Dec. 8** — "Master Improvement, Part I—Achieve Breakthrough Improvements," Peter Scholtes.

■ **Dec. 16** — "Master Improvement, Part 2—In-Depth Changes That Last," Peter Scholtes.

For information on being a seminar host, call the U.S. Chamber's quality learning services division at 1-800-835-4730 or, in the D.C. area, (202) 463-5940. U.S. Chamber members who would like to attend the programs should call their local chamber of commerce.

■ Behind The Scenes

Chamber Health-Care Action

As the flurry over President Clinton's health-care plan intensified, the U.S. Chamber of Commerce continued to work diligently behind the scenes to ensure that influential policymakers throughout the government understand the concerns of business.

Since Feb. 22, when the Chamber's board of directors adopted a series of principles for health-care reform, Chamber representatives have conducted an intense campaign to educate leaders in the administration and Congress on those principles. The Chamber's strategy was to discourage proposals that would have a clearly negative impact on business and to encourage alternatives that embodied the principles adopted by the board.

(The complete text of the board-adopted principles for market-based reform was published in the April *Business Advocate*.)

The Chamber's hope was that the health-care proposals ultimately put forward by the administration and members of Congress would be more-favorable starting points for the long debate ahead than they would have been if the Chamber had not taken an active behind-the-scenes role.

Chamber representatives met several times with Ira Magaziner, the director of the administration's health-care task force.

In June, Chamber directors raised their concerns with Magaziner following his remarks to the board on where the administration was headed on reform.



The U.S. Chamber was busy in September assessing the likely impact of President Clinton's health-care proposals on businesses, their employees, and their workers' families.

In the only public hearing conducted by the administration's health-care task force in late March, the Chamber also presented its views.

At the U.S. Department of Health and Human Services, Chamber representatives met with Secretary Donna Shalala and separately briefed several assistant secretaries on the principles adopted by its board.

Chamber health-care experts also discussed the issue directly with key members of Congress and their staffs and staff members of congressional panels—including the House Ways and Means, Senate Finance, and Senate Labor committees—that will be instrumental in shaping final legislation.

In August, the Chamber presented small business's concerns at a hearing before the House Small Business Committee.

The business federation began mapping out its future strategy after reviewing a draft of the plan before it was formally announced by Clinton in late September.

Shortly thereafter, Chamber representatives met separately with Treasury Secretary Lloyd Bentsen and Erskine Bowles, head of the Small Business Administration, to discuss their concerns about the draft.

The Chamber will be working in the months ahead to help shape health-reform legislation that will be in the best interests of business and the nation.

Watch for a full report on the Clinton plan's impact on small business in your November Nation's Business. *A report on Chamber activities following Clinton's announcement will appear in your next* Business Advocate.

■ Developments

Chamber Names New Media VP

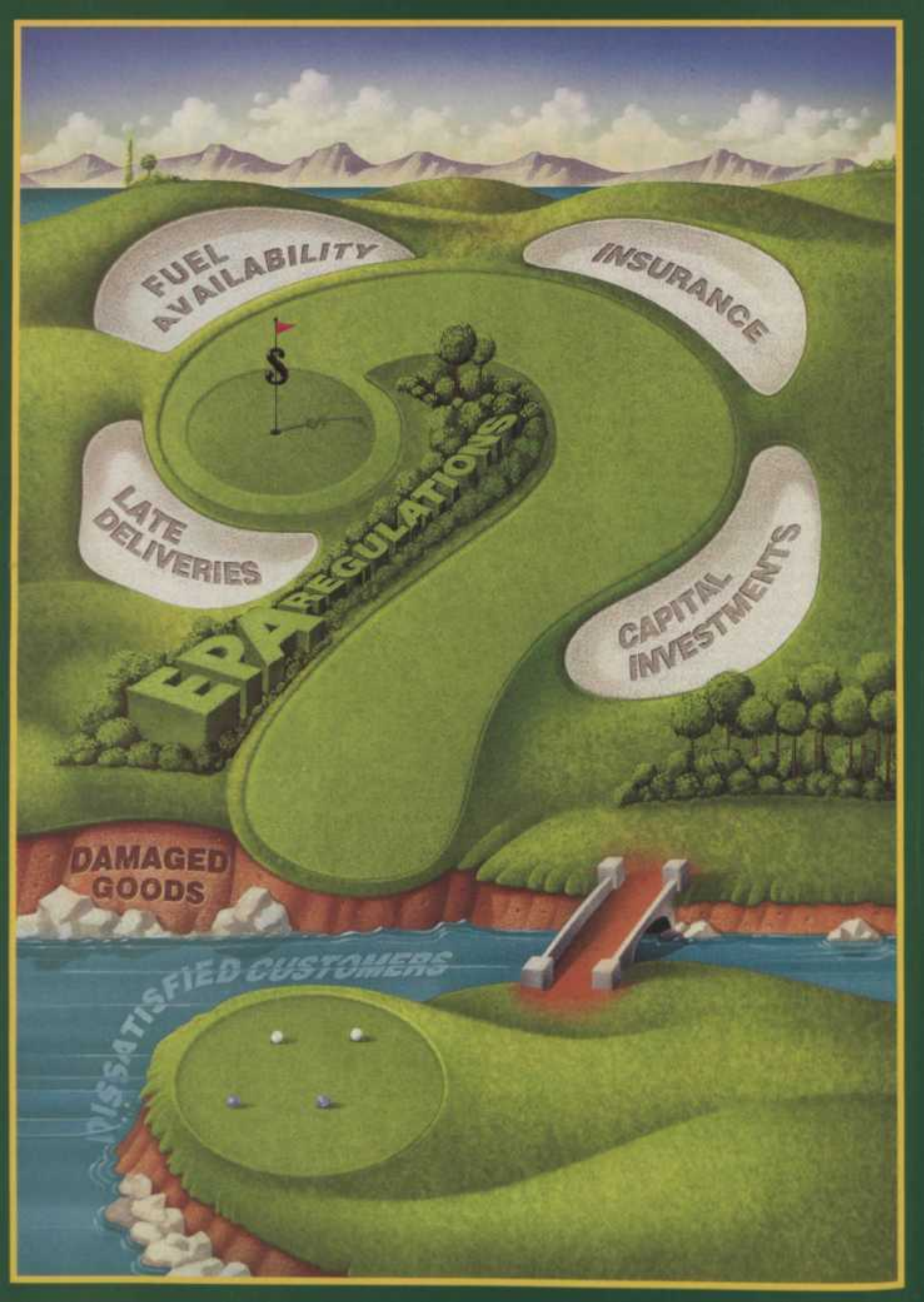
Leslie Goodman has been named vice president of the U.S. Chamber of Commerce's media relations division.

Goodman will be responsible for coordinating all U.S. Chamber press activities and will be the chief liaison between the Chamber and the national news media.

Before joining the Chamber, Goodman served as a media consultant to the Burson-Marsteller public-relations firm. In that capacity, she supervised the American Energy Alliance's successful campaign to have the energy tax hike based on the British thermal unit eliminated from President Clinton's recently approved budget legislation. The Chamber was a key member of the energy-tax coalition. Goodman has also held several communications positions in Washington, including deputy communications director of the Bush-Quayle re-election campaign, director of communications and public liaison for the United States Information Agency, and press secretary for the Republican National Committee.



Leslie Goodman


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■ Environment

Chamber Details Views On Water Law



Frank H. Hackmann, speaking on behalf of the U.S. Chamber, explains business's concerns about reauthorization of the Clean Water Act to the House Public Works Subcommittee on Water Resources and Environment. Hackmann is a partner in the law firm Sonnenschein, Nath & Rosenthal. Other witnesses on the business panel—which was organized by the Chamber—and the organizations they represented were, from left, David Norwine, National Association of Metal Finishers; Hugh Campbell, Chemical Manufacturers Association; James Batchelder, American Wood Preservers Institute; Jeffrey Silliman, American Textile Manufacturers Institute; Duane Marshall, American Forest and Paper Association; and Jack Stein, National Environmental Development Association. Hackmann told the subcommittee that the act has worked reasonably well from business's perspective. He urged the panel to make only changes that are needed in the law and to make them clear and comprehensible so that companies understand what is expected and how the goals can be accomplished.

■ Business Views

Congressional Reform

Stating that the "time for reform is now," the U.S. Chamber of Commerce suggested several changes in the operations of Congress before a congressional panel charged with recommending improvements in the institution.

"Implementing procedural reform will truly make for an effective legislative branch which fosters debate and creates good public policy," said Ned Massee, vice president of public affairs for New York-based Westvaco Corp. and a member of the U.S. Chamber's public-affairs committee. Massee testified before the Joint Committee on the Organization of Congress on behalf of the Chamber in late June.

Among the business federation's recommendations:

- Apply all laws to Congress.
- Limit the number of consecutive years members can serve on a committee.
- Limit the terms of committee chairmen.
- Clearly define and limit the legislative jurisdiction of committees or reduce the number of committees.
- Establish limits and extents of acceptable use of the free mailing, or franking, privilege.

The bipartisan congressional committee is expected to craft a comprehensive reform bill for introduction in the House and the Senate this fall. (See the related story on government reform on Page 66 of *Nation's Business.*)

In a matter related to one of the Chamber's recommendations, Rep. Bill Goodling, R-Pa., introduced legislation (H.R. 2499) in late June that would require the House to live under all provisions of the Americans with Disabilities Act (ADA), Title VII of the 1964 Civil Rights Act, the Family and Medical Leave Act, and the Age Discrimination in Employment Act (ADEA). Although the House is covered under the ADA, the civil-rights law, and the leave act, employees of the House cannot sue their employers in court—they have no private right of action—for violations of those laws. Congress is exempt from the ADEA.

The U.S. Chamber has long supported requiring Congress to comply with the laws it passes.

A bill (H.R. 349) introduced by Reps. Dick Swett, D-N.H., and Christopher Shays, R-Conn., would require the House to abide by all current and prospective laws.

If you believe Congress should have to abide by legislation it passes, write your representative. Urge him or her to support bills that would require Congress to comply with previously passed bills and future laws. The address: U.S. House of Representatives, Washington, D.C. 20515.

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■ Taxes And Spending

The Most Important Votes Of '93

In their most important votes of the year, the U.S. Senate and House of Representatives narrowly approved a federal budget for fiscal 1994, which begins Oct. 1. The legislation, the Omnibus Budget Reconciliation Act of 1993, was a compromise between House and Senate versions of budget bills.

It was opposed by the U.S. Chamber of Commerce primarily because it did not meet budget guidelines established by the organization's board of directors. Among the Chamber's top concerns was the level of tax hikes imposed relative to reductions in the projected growth of federal spending. The Chamber said the level of tax increases should have been lower and spending restraint greater.

While most U.S. Chamber members are likely well aware of how their senators and representatives voted, the listing here is provided for those wishing to keep these important votes on file.

For information on the new law's impact on small business and details about specific tax provisions affecting business, see the story beginning on Page 24 in your October *Nation's Business*.

Representatives Against Bill

ALABAMA
Bachus, Spencer (R)
Browder (D)
Callahan (R)
Everett (R)

ALASKA
Young, Don (R)

ARIZONA
Coppersmith (D)
Kolbe (R)
Kyl (R)
Stump (R)

ARKANSAS
Dickey (R)
Hutchinson (R)
Thornton (D)

CALIFORNIA
Baker, Bill (R)
Calvert (R)
Condit (D)
Cox (R)
Cunningham (R)
Dooley (D)
Doolittle (R)
Dornan (R)
Dreier (R)
Gallegly (R)
Herger (R)
Horn (R)
Huffington (R)
Hunter (R)
Kim (R)
Lehman (D)
Lewis, Jerry (R)
McCandless (R)
McKeon (R)
Moorhead (R)
Packard (R)
Pombo (R)
Rohrabacher (R)
Royce (R)
Thomas, William (R)

COLORADO
Allard (R)
Hefley (R)
McInnis (R)
Schaefer (R)

CONNECTICUT
Franks, Gary (R)
Johnson, Nancy (R)
Shays (R)

DELAWARE
Castle (R)

FLORIDA
Bilirakis (R)
Canady (R)
Diaz-Balart (R)
Fowler (R)
Goss (R)
Hutto (D)
Lewis, Tom (R)
McCollum (R)
Mica (R)
Miller, Dan (R)
Ros-Lehtinen (R)
Shaw (R)
Stearns (R)
Young, Bill (R)

GEORGIA
Collins, Michael (R)
Deal (D)
Gingrich (R)
Kingston (R)
Linder (R)
Rowland (D)

IDAHO
Crapo (R)

ILLINOIS
Crane (R)
Ewing (R)
Fawell (R)
Hastert (R)
Hyde (R)
Lipinski (D)
Manzullo (R)
Michel (R)
Porter (R)

INDIANA
Burton (R)
Buyer (R)
Long (D)
Myers, John (R)
Roemer (D)

IOWA
Grandy (R)

MARYLAND
Bartlett (R)
Bentley (R)
Gilchrest (R)
Morella (R)

MASSACHUSETTS
Blute (R)
Torkildsen (R)



"The essential point in any plan to reduce the deficit is [that spending] cuts must be greater than taxes."

—Rep. Bill K. Brewster, D-Okla.

Leach (R)
Lightfoot (R)
Nussle (R)

KANSAS
Meyers, Jan (R)
Roberts (R)

KENTUCKY
Baesler (D)
Bunning (R)
Rogers (R)

LOUISIANA
Baker, Richard (R)
Hayes, James A. (D)
Livingston (R)
McCrery (R)
Tauzin (D)

MAINE
Snowe (R)

MICHIGAN
Camp (R)
Hoekstra (R)
Knollenberg (R)
Smith, Nick (R)
Upton (R)

MINNESOTA
Grams (R)
Minge (D)
Peterson, Collin (D)

MISSISSIPPI
Montgomery (D)
Parker (D)
Taylor, Gene (D)

MISSOURI
Danner (D)
Emerson (R)
Hancock (R)
Talent (R)

NEBRASKA
Barrett, Bill (R)
Bereuter (R)

NEVADA
Vucanovich (R)

NEW HAMPSHIRE
Swett (D)
Zeliff (R)

NEW JERSEY
Andrews, Robert (D)
Franks, Bob (R)
Gallo (R)
Klein (D)
Pallone (D)
Roukema (R)
Saxton (R)
Smith, Christopher (R)
Zimmer (R)

NEW MEXICO
Schiff (R)
Skaen (R)

NEW YORK
Boehlert (R)
Fish (R)
Gilman (R)
Houghton (R)
King (R)
Lazio (R)
Levy (R)
McHugh (R)
Molinari (R)
Paxon (R)
Quinn (R)
Solomon (R)
Walsh (R)

NORTH CAROLINA
Ballenger (R)
Coble (R)
McMillan (R)
Taylor, Charles (R)

OHIO
Boehner (R)
Gillmor (R)
Hobson (R)
Hoke (R)
Kasich (R)
Mann (D)
Oxley (R)
Portman (R)
Pryce, Deborah (R)
Regula (R)
Traficant (D)

OKLAHOMA
Brewster (D)
English, Glenn (D)
Inhofe (R)
Istook (R)
McCurdy (D)

OREGON
Smith, Robert F. (R)

PENNSYLVANIA
Clinger (R)
Gekas (R)
Goodling (R)
Greenwood (R)
McDade (R)
Ridge (R)
Santorum (R)
Shuster (R)
Walker (R)
Weldon (R)

RHODE ISLAND
Machtley (R)

SOUTH CAROLINA
Inglis (R)
Ravenel (R)
Spence (R)

TENNESSEE
Clement (D)
Duncan (R)
Lloyd (D)
Quillen (R)
Sundquist (R)

TEXAS
Archer (R)
Armey (R)
Barton (R)
Bonilla (R)
Chapman (D)
Combest (R)
DeLay (R)
Edwards, Chet (D)
Fields, Jack (R)
Geren (D)
Hall, Ralph (D)
Johnson, Sam (R)
Laughlin (D)
Smith, Lamar (R)
Stenholm (D)

UTAH
Hansen (R)
Orton (D)

VIRGINIA
Bateman (R)
Bliley (R)
Goodlatte (R)
Pickett (D)
Wolf (R)

WASHINGTON
Dunn (R)
Inslee (D)

WISCONSIN
Gunderson (R)
Klug (R)
Petri (R)
Roth, Toby (R)
Sensenbrenner (R)

WYOMING
Thomas, Craig (R)

Representatives For Bill

ALABAMA
Bevill (D)
Cramer (D)
Hilliard (D)
Johnson, Don (D)
Lewis, John (D)
McKinney (D)

ARIZONA
English, Karan (D)
Pastor (D)

ARKANSAS
Lambert (D)

CALIFORNIA
Becerra (D)
Beilenson (D)
Berman (D)
Brown, George (D)
Dellums (D)
Dixon (D)
Edwards, Don (D)
Eshoo (D)
Farr (D)
Fazio (D)
Filner (D)
Hamburg (D)
Harman (D)
Lantos (D)
Martinez (D)
Matsui (D)
Miller, George (D)
Mineta (D)
Pelosi (D)
Roybal-Allard (D)
Schenk (D)
Stark (D)
Torres (D)
Tucker (D)
Waters (D)
Waxman (D)
Woolsey (D)

COLORADO
Schroeder (D)
Skaggs (D)

CONNECTICUT
DeLauro (D)
Gejdenson (D)
Kennelly (D)

FLORIDA
Bacchus, Jim (D)
Brown, Corrine (D)
Deutsch (D)
Gibbons (D)
Hastings (D)
Johnston, Harry (D)
Meek (D)
Peterson, Pete (D)
Thurman (D)

GEORGIA
Bishop (D)
Darden (D)

HAWAII
Abercrombie (D)
Mink (D)

IDAHO
LaRocco (D)

ILLINOIS
Collins, Cardiss (D)
Costello (D)
Durbin (D)
Evans (D)
Gutierrez (D)
Poshard (D)
Reynolds (D)
Rostenkowski (D)
Rush (D)
Sangmeister (D)
Yates (D)

INDIANA
Hamilton (D)
Jacobs (D)
McCloskey (D)
Sharp (D)
Visclosky (D)

IOWA
Smith, Neal (D)

KANSAS
Glickman (D)
Slattery (D)

KENTUCKY
Barlow (D)
Mazzoli (D)
Natcher (D)

LOUISIANA
Fields, Cleo (D)
Jefferson (D)

MAINE
Andrews, Thomas (D)

MARYLAND
Cardin (D)
Hoyer (D)
Mfume (D)
Wynn (D)

MASSACHUSETTS
Frank, Barney (D)
Kennedy (D)
Markey (D)
Meehan (D)
Moakley (D)
Neal, Richard (D)
Olver (D)
Studds (D)

MICHIGAN
Barcia (D)
Bonior (D)
Carr (D)
Collins, Barbara-Rose (D)
Conyers (D)
Dingell (D)
Ford, William (D)
Kildee (D)
Levin (D)
Stupak (D)

MINNESOTA
Oberstar (D)
Penny (D)
Sabo (D)
Vento (D)

MISSISSIPPI
Thompson (D)
Whitten (D)

MISSOURI
Clay (D)
Gephardt (D)
Skelton (D)
Volkmer (D)
Wheat (D)

MONTANA
Williams (D)

NEBRASKA
Hoagland (D)

NEVADA
Bilbray (D)

NEW JERSEY
Hughes (D)
Menendez (D)
Payne, Donald (D)
Torricelli (D)

NEW MEXICO
Richardson (D)

NEW YORK
Ackerman (D)
Engel (D)
Flake (D)
Hinchey (D)
Hochbrueckner (D)
LaFalce (D)
Lowey (D)
Maloney (D)
Manton (D)
McNulty (D)
Nadler (D)
Owens (D)
Rangel (D)
Schumer (D)
Serrano (D)
Slaughter (D)
Towns (D)
Velazquez (D)

NORTH CAROLINA
Clayton (D)
Hefner (D)
Lancaster (D)
Neal, Stephen (D)
Price, David (D)
Rose (D)
Valentine (D)
Watt (D)

NORTH DAKOTA
Pomeroy (D)

OHIO
Applegate (D)
Brown, Sherrod (D)
Fingerhut (D)
Hall, Tony (D)
Kaptur (D)
Sawyer (D)
Stokes (D)
Strickland (D)

OKLAHOMA
Synar (D)

OREGON
DeFazio (D)
Furse (D)
Kopetski (D)
Wyden (D)

PENNSYLVANIA
Blackwell (D)
Borski (D)
Coyne (D)
Foglietta (D)
Holden (D)
Kanjorski (D)
Klink (D)
Margolies-Mezvinsky (D)
McHale (D)
Murphy (D)
Murtha (D)

RHODE ISLAND
Reed (D)

SOUTH CAROLINA
Clyburn (D)
Derrick (D)
Spratt (D)

SOUTH DAKOTA
Johnson, Tim (D)

TENNESSEE
Cooper (D)
Ford, Harold (D)
Gordon (D)
Lloyd (D)
Tanner (D)

TEXAS
Andrews, Michael (D)
Brooks (D)
Bryant (D)
Coleman (D)
de la Garza (D)
Frost (D)
Gonzalez (D)
Green (D)
Johnson, Eddie (D)
Ortiz (D)
Pickle (D)
Sarpalius (D)
Tejeda (D)
Washington (D)
Wilson (D)

UTAH
Shepherd (D)

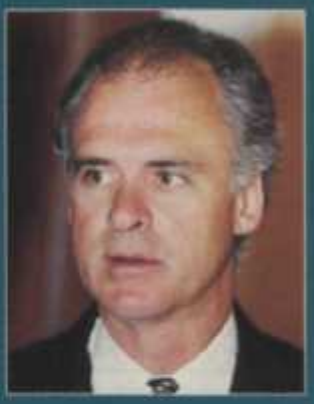
VERMONT
Sanders (I)

VIRGINIA
Boucher (D)
Byrne (D)
Moran (D)
Payne, Lewis (D)
Scott (D)
Sisisky (D)

WASHINGTON
Cantwell (D)
Dicks (D)
Foley (D)
Kreidler (D)
McDermott (D)
Swift (D)
Unsoeld (D)

WEST VIRGINIA
Mollohan (D)
Rahall (D)
Wise (D)

WISCONSIN
Barca (D)
Barrett, Thomas (D)
Kleczka (D)
Obey (D)



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(The Senate vote begins on Page 99.)

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■ Taxes And Spending

Senate Vote On Budget

Continued from Page 97

The Senate vote on the budget bill was 51-50 on Aug. 6; Vice President Al Gore cast the deciding vote. The House vote on Aug. 5 was 218-216.

Voted For Bill

ALABAMA
Heflin (D)
ARIZONA
DeConcini (D)
ARKANSAS
Bumpers (D)
Pryor (D)
CALIFORNIA
Boxer (D)
Feinstein (D)
COLORADO
Campbell (D)
CONNECTICUT
Dodd (D)
Lieberman (D)
DELAWARE
Biden (D)
FLORIDA
Graham (D)
HAWAII
Akaka (D)
Inouye (D)
ILLINOIS
Moseley-Braun (D)
Simon (D)
IOWA
Harkin (D)
KENTUCKY
Ford (D)
LOUISIANA
Breaux (D)
MAINE
Mitchell (D)
MARYLAND
Mikulski (D)
Sarbanes (D)
MASSACHUSETTS
Kennedy (D)
Kerry, John (D)
MICHIGAN
Levin (D)
Riegle (D)
MINNESOTA
Wellstone (D)
MONTANA
Baucus (D)
NEBRASKA
Exon (D)
Kerrey, Robert (D)
NEVADA
Reid (D)
NEW JERSEY
Bradley (D)
NEW MEXICO
Bingaman (D)
NEW YORK
Moynihan (D)
NORTH DAKOTA
Conrad (D)
Dorgan (D)
OHIO
Glenn (D)
Metzenbaum (D)
PENNSYLVANIA
Wofford (D)
RHODE ISLAND
Pell (D)
SOUTH CAROLINA
Hollings (D)
SOUTH DAKOTA
Daschle (D)
TENNESSEE
Mathews (D)
Sasser (D)
VERMONT
Leahy (D)
VIRGINIA
Robb (D)
WASHINGTON
Murray (D)
WEST VIRGINIA
Byrd (D)
Rockefeller (D)
WISCONSIN
Feingold (D)
Kohl (D)

Voted Against Bill

ALABAMA
Shelby (D)
ALASKA
Murkowski (R)
Stevens (R)
ARIZONA
McCain (R)
COLORADO
Brown (R)
DELAWARE
Roth (R)
FLORIDA
Mack (R)
GEORGIA
Nunn (D)
Coverdell (R)
IDAHO
Craig (R)
Kempthorne (R)
INDIANA
Coats (R)
Lugar (R)
IOWA
Grassley (R)
KANSAS
Dole (R)
Kassebaum (R)
KENTUCKY
McConnell (R)
LOUISIANA
Johnston (D)
MAINE
Cohen (R)
MINNESOTA
Durenberger (R)
MISSISSIPPI
Cochran (R)
Lott (R)
MISSOURI
Bond (R)
Danforth (R)
MONTANA
Burns (R)
NEVADA
Bryan (D)
NEW HAMPSHIRE
Gregg (R)
Smith (R)
NEW JERSEY
Lautenberg (D)
NEW MEXICO
Domenici (R)
NEW YORK
D'Amato (R)
NORTH CAROLINA
Faircloth (R)
Helms (R)
OKLAHOMA
Boren (D)
Nickles (R)
OREGON
Hatfield (R)
Packwood (R)
PENNSYLVANIA
Specter (R)
RHODE ISLAND
Chafee (R)
SOUTH CAROLINA
Thurmond (R)
SOUTH DAKOTA
Pressler (R)
TEXAS
Gramm (R)
Hutchison (R)
UTAH
Bennett (R)
Hatch (R)
VERMONT
Jeffords (R)
VIRGINIA
Warner (R)
WASHINGTON
Gorton (R)
WYOMING
Simpson (R)
Wallop (R)

■ New Network

The U.S. Chamber of Commerce has begun compiling the data base that will be used to service its Grassroots Action Information Network (GAIN).

There is no cost to U.S. Chamber members to join the legislative network, and the federation is urging all its members to become active participants.

Chamber members should have received a letter from Richard L. Lesher, the organization's president, detailing GAIN. If you did not receive the letter, including a GAIN coupon, call (202) 463-5604.

■ Capitol Hill

Spirit Of Enterprise Winners

The Spirit of Enterprise Award was presented recently by the U.S. Chamber of Commerce to these members of Congress for their strong support of business during 1992. (For more information on the award, see Pages 88 and 89.)

U.S. Senate

ALASKA
Frank H. Murkowski (R)
Ted Stevens (R)

ARIZONA
John McCain (R)

CALIFORNIA
John Seymour (R)*

COLORADO
Hank Brown (R)

DELAWARE
William V. Roth Jr. (R)

FLORIDA
Connie Mack (R)

IDAHO
Larry E. Craig (R)
Steve Symms (R)*

INDIANA
Dan Coats (R)
Richard G. Lugar (R)

IOWA
Charles E. Grassley (R)

KANSAS
Bob Dole (R)
Nancy Landon Kassebaum (R)

KENTUCKY
Mitch McConnell (R)

MAINE
William S. Cohen (R)

MISSISSIPPI
Thad Cochran (R)
Trent Lott (R)

MISSOURI
Christopher S. Bond (R)
John C. Danforth (R)

MONTANA
Conrad Burns (R)

NEW HAMPSHIRE
Warren Rudman (R)*
Robert C. Smith (R)

NEW MEXICO
Pete V. Domenici (R)

NORTH CAROLINA
Jesse Helms (R)

OKLAHOMA
Don Nickles (R)

RHODE ISLAND
John H. Chafee (R)

SOUTH CAROLINA
Strom Thurmond (R)

SOUTH DAKOTA
Larry Pressler (R)

TEXAS
Phil Gramm (R)

UTAH
Jake Garn (R)*
Orrin G. Hatch (R)

VIRGINIA
John W. Warner (R)

WASHINGTON
Slade Gorton (R)

WISCONSIN
Robert W. Kasten Jr. (R)*

WYOMING
Alan K. Simpson (R)
Malcolm Wallop (R)

* No longer a member of Congress.

U.S. House Of Representatives

ALABAMA
Sonny Callahan (R)
William L. Dickinson (D)*

ALASKA
Don Young (R)

ARIZONA
Jim Kolbe (R)
Jon L. Kyl (R)
John J. Rhodes III (R)*
Bob Stump (R)

ARKANSAS
John Paul Hammerschmidt (R)*

CALIFORNIA
Tom Campbell (R)*
C. Christopher Cox (R)
Randy Cunningham (R)
John T. Doolittle (R)
Robert K. Doman (R)
David Dreier (R)
Elton Gallegly (R)
Wally Herger (R)
Duncan Hunter (R)
Robert J. Lagomarsino (R)*
Jerry Lewis (R)
Bill Lowery (R)*
Alfred A. McCandless (R)
Carlos J. Moorhead (R)
Ron Packard (R)
Frank Riggs (R)*
Dana Rohrabacher (R)
William M. Thomas (R)

COLORADO
Wayne Allard (R)
Joel Hefley (R)
Dan Schaefer (R)

CONNECTICUT
Gary A. Franks (R)
Nancy L. Johnson (R)

FLORIDA
Michael Bilirakis (R)
Porter J. Goss (R)
Earl Hutto (D)
Andy Ireland (R)*
Tom Lewis (R)
Bill McCollum (R)
E. Clay Shaw Jr. (R)
Cliff Stearns (R)

GEORGIA
Doug Barnard Jr. (D)*
Newt Gingrich (R)
Ed Jenkins (D)*
Richard Ray (D)*
Robert Lindsay Thomas (D)*

IDAHO
Richard H. Stallings (D)*

ILLINOIS
Philip M. Crane (R)
Thomas W. Ewing (R)
Harris W. Fawell (R)
J. Dennis Hastert (R)
Henry J. Hyde (R)
Robert H. Michel (R)
John Edward Porter (R)

INDIANA
Dan Burton (R)
John T. Myers (R)

IOWA
Fred Grandy (R)
Jim Lightfoot (R)
David R. Nagle (D)*
Jim Nussle (R)

KANSAS
Jan Meyers (R)
Dick Nichols (R)*
Pat Roberts (R)

KENTUCKY
Jim Bunning (R)
Larry J. Hopkins (R)*
Harold Rogers (R)

LOUISIANA
Richard H. Baker (R)
James A. Hayes (D)
Clyde C. Holloway (R)*
Jerry Huckaby (D)*
Bob Livingston (R)
Jim McCrery (R)
W.J. Tauzin (D)

MARYLAND
Helen Delich Bentley (R)
Beverly B. Byron (D)*
Wayne T. Gilchrest (R)

MICHIGAN
William S. Broomfield (R)*
David Camp (R)
Robert W. Davis (R)*
Paul B. Henry (R)*
Carl D. Pursell (R)*
Frederick S. Upton (R)
Guy Vander Jagt (R)*

MINNESOTA
Jim Ramstad (R)
Vin Weber (R)*

MISSISSIPPI
G.V. Montgomery (D)
Mike Parker (D)

MISSOURI
E. Thomas Coleman (R)*
Bill Emerson (R)
Mel Hancock (R)

NEBRASKA
Bill Barrett (R)
Doug Bereuter (R)

NEVADA
Barbara F. Vucanovich (R)

NEW HAMPSHIRE
Bill H. Zeliff Jr. (R)

NEW JERSEY
Dean A. Gallo (R)
Marge Roukema (R)
Christopher H. Smith (R)
Jim Saxton (R)

NEW MEXICO
Steven Schiff (R)
Joe Skeen (R)

NEW YORK
Frank Horton (R)*
Amo Houghton (R)
Norman F. Lent (R)*
Raymond J. McGrath (R)*
Susan Molinari (R)
Bill Paxon (R)
James T. Walsh (R)

NORTH CAROLINA
Cass Ballenger (R)
Howard Coble (R)
H. Martin Lancaster (D)
J. Alex McMillan (R)
Charles H. Taylor (R)

OHIO
John A. Boehner (R)
Paul E. Gillmor (R)
Willis D. Gradison Jr. (R)*
David L. Hobson (R)
John R. Kasich (R)
Bob McEwen (R)*
Clarence E. Miller (R)*
Michael G. Oxley (R)
Ralph Regula (R)
Chalmers P. Wylie (R)*

OKLAHOMA
Bill Brewster (D)
Mickey Edwards (R)*
Glenn English (D)
James M. Inhofe (R)
Dave McCurdy (D)

OREGON
Robert F. Smith (R)

PENNSYLVANIA
William F. Clinger Jr. (R)
Lawrence Coughlin (R)*
George W. Gekas (R)
William F. Goodling (R)
Joseph M. McDade (R)
Don Ritter (R)*
Rick Santorum (R)
Richard T. Schulze (R)*
Bud Shuster (R)
Robert S. Walker (R)
Curt Weldon (R)

SOUTH CAROLINA
Arthur Ravenel Jr. (R)
Floyd Spence (R)

TENNESSEE
James H. Quillen (R)
Don Sundquist (R)

TEXAS
Bill Archer (R)
Richard K. Armey (R)
Joe Barton (R)
Larry Combest (R)
Tom DeLay (R)
Jack Fields (R)
Pete Geren (D)
Sam Johnson (R)
Bill Sarpalius (D)
Lamar S. Smith (R)
Charles Wilson (D)

UTAH
James V. Hansen (R)

VIRGINIA
George F. Allen (R)*
Herbert H. Bateman (R)
Thomas J. Bliley Jr. (R)
Owen B. Pickett (D)
Norman Sisisky (D)
Frank R. Wolf (R)

WASHINGTON
Rod Chandler (R)*
John Miller (R)*
Sid Morrison (R)*

WISCONSIN
Steve Gunderson (R)
Toby Roth (R)
F. James Sensenbrenner Jr. (R)

WYOMING
Craig Thomas (R)